

# **Why Not Abolish the Welfare State?**

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## **Executive Summary**

Everyone from Ronald Reagan to Bill Clinton seems to agree. Our welfare system is a disaster. It's in desperate need of reform.

Currently, we are spending more than \$350 billion a year on 79 means-tested federal welfare programs. That's more than we spend on national defense. Theoretically, we could take that money and give \$8,939 to every poor person in America, or \$35,756 to a family of four.

Since 1965 we have spent \$5 trillion on the War on Poverty, measured in 1992 constant dollars. Yet the poverty rate is higher today than it was the year the War on Poverty began. How can we spend so much and achieve so little? One reason is that most of the money we spend doesn't go to poor people. It goes to nonpoor people who work in the welfare-poverty industry. Medicaid dollars go to doctors and hospitals; food stamp dollars go to the agricultural industry; housing subsidies go to landlords; and legal service dollars go to lawyers.

Meanwhile, the official poverty counters look only at money income and ignore goods-in-kind. That means the welfare system can give poor people unlimited amounts of food, shelter and medical care and still count them as poor. That explains why the real value of cash benefits to welfare mothers has changed little in the past 20 years, even though the welfare state has mushroomed. We're paying people to be poor, but mainly not in cash.

There are remarkable differences among the people we label as "poor." The poverty population includes the elderly poor as well as unwed teenage mothers. It includes people with college degrees as well as the functionally illiterate. It includes the healthy as well as the sick. It includes the mentally impaired as well as the normal. It includes people who use the welfare system for temporary relief as well as those who become perpetual wards of the state.

Unfortunately, rules written in Washington are tragically inadequate to take account of the differences in attitude and circumstance of the millions of recipients of this money. In the very act of helping some people, federal welfare programs create perverse incentives for others. Scholarly studies show that the welfare system discourages work and encourages dependency, single motherhood and the breakup of families. The underclass — replete with crime and other antisocial behavior — is subsidized and sustained by the welfare state. Even when the welfare system achieves good results, it does so incompletely. A humane welfare system is one that gets aid first to people who need it most. Yet one of the most astonishing and little-known facts about the welfare state is what a miserable job it does in pursuing this goal. According to a government report:

- Only 41 percent of all poverty families receive food stamps, and 28 percent of food-stamp families have incomes above the poverty level.
- Only 23 percent of all poverty families live in public housing or receive housing subsidies, and yet almost half of the families receiving housing benefits are not poor.

- Only 40 percent of all poverty families are covered by Medicaid; yet 40 percent of all Medicaid beneficiaries are not poor.
- *Amazingly, 41 percent of all poverty families receive no means-tested benefit of any kind from government;* yet more than 50 percent of all families who receive at least one means-tested benefit are not poor.

The War on Poverty was started to create a social safety net — to help people who failed to get help from the private sector. Yet it is becoming increasingly obvious that today the private sector provides the real social safety net — by helping people that government programs simply do not reach.

- Ninety-four percent of all shelters for the homeless in the U.S. are operated by private sector organizations.
- Studies show that as many as 80 percent of low-income people turn to the private sector first when facing a crisis.

Compare the dismal performance of the public sector with some of our best private charities. Under welfare, applicants do not have to explain how they plan to change their behavior in the future or even to show a willingness to change. By contrast, our best private charities may reduce the level of assistance, or withdraw assistance altogether, if recipients do not show behavioral changes. Overall, the private sector has shown that *only* through hands-on management — often using subjective judgment — can we give relief without at the same time encouraging dependency.

There is mounting evidence that the private sector does a better job of getting prompt aid to those who need it most, encouraging self-sufficiency and self-reliance, preserving the family unit and using resources efficiently. Yet the federal government has a monopoly on welfare tax dollars. It is time to end this monopoly by allowing private citizens to make decisions on how our welfare tax dollars will be spent.

Under this proposal, government would continue to force people to give their “fair share” through the income tax system and would determine the total national welfare budget. However, individual taxpayers would be free to allocate their welfare tax dollars to any qualified charity — public or private.

Moreover, for each dollar taxpayers allocated to a private charity, government welfare programs would lose a dollar. In this way private charities would compete on an equal footing with government welfare programs for the portion of the federal budget that is allocated to poverty programs.

Under this proposal, a welfare program would be able to attract contributions only by making a persuasive case to the public. No longer would inefficient, wasteful programs be able to count on uncontested access to taxpayer dollars. Instead, the people giving the money would have direct control over how their share of welfare dollars was spent.

## **Introduction: The Welfare-Poverty Debate<sup>1</sup>**

In his 1992 election campaign, Bill Clinton promised to abolish welfare as we know it. Subsequently the Clinton administration proposed a two-year-and-out workfare program. That proposal followed in the footsteps of the 1988 Federal Family Support Act, which mandated that all states enact work-for-welfare programs. Massachusetts Governor William Weld is one of several governors who has proposed even more radical change at the state level.<sup>2</sup> And although the 103rd Congress failed to act on President Clinton's proposal, everyone expects that welfare reform will be a high priority when Congress convenes next year.

As a result, a national debate has begun. On one side are those who argue that welfare is beneficial and benign, helping people who are in poverty because of external circumstances over which they have no control. On the other are those who argue that welfare is encouraging millions to choose poverty because our generous welfare system makes it more attractive than work.

This study argues that there is some truth on both sides of the debate. Welfare does indeed help people who fall into poverty through no fault of their own. At the same time, there is overwhelming evidence that the welfare system encourages dependency, the breakup of families and the emergence of single-parent households.

An ideal welfare system is one that helps people in genuine need, without at the same time encouraging antisocial behavior. We argue that the ideal cannot possibly be achieved through reform and modification of federal welfare programs. Nor can it be achieved by turning the administration of such programs over to state and local governments.

The ideal welfare system requires hands-on management — determination of the amount and type of aid case by case, based on each recipient's circumstances. Only the private sector can run and administer such a system. In short, the solution to the U.S. welfare-poverty crisis is to privatize the welfare state.

*"A national debate on welfare reform has begun."*

TABLE I

## Means-Tested Federal Welfare Programs

Aid to Families With Dependent Children	Low-Rent Public Housing
Supplemental Security Income	Section 502 Rural Housing Loans
Pensions for Needy Veterans, Their Dependents, and Survivors General Assistance (cash component)	Section 236 Interest Reduction Payment
Earned Income Tax Credit (EITC)	Section 515 Rural Rental Housing Loans
Foster Care	Section 521 Rural Rental Assistance Payments Section 235
Assistance to Refugees and Cuban/Haitian Entrants	Homeownership Assistance for Low-Income Families
Emergency Assistance (EA) to Needy Families With Children	Section 101 Rent Supplements
Adoption Assistance	Indian Housing Improvement Grants
Dependency and Indemnity Compensation (DIC) and Death Compensation for Parents of Veterans	Section 504 Rural Housing Repair Loans and Grants
General Assistance to Indians	Section 514 Farm Labor Housing Loans
Community Development Block Grants*	Section 523 Rural Housing Self-Help Technical Assistance Grants and Loans
Urban Development Action Grant (UDAG)*	Section 524 Rural Housing Site Loans
Economic Development Administration*	Section 516 Farm Labor Housing Grants
Appalachian Regional Development*	Section 533 Rural Housing Preservation Grants
Legalization Impact Aid	Public Housing Expenditures by State Governments*
Pell Grants	Training for Disadvantaged Adults and Youth (JTPA-II-A)
Head Start	Summer Youth Employment Program (JTPA II-B)
Title I Grants to Local Education Authorities for Educationally Deprived Children, Elementary and Secondary Education Act*	Job Corps (JTPA-IV)
College Work-Study Program	Senior Community Service Employment Program
Supplemental Education Opportunity Grants	Work Incentive Program (WIN) and Job Opportunity and Basic Skills Training (JOBS) (JOBS replaced WIN in 1988)
Vocational Educational Opportunities, Disadvantaged Activities	Foster Grandparents
Chapter 1 Migrant Education Program	Senior Companions
Special Programs for Students From Disadvantaged Backgrounds (TRIO Programs)	Migrant and Seasonal Farmworkers Program*
State Student Incentive Grants	Indian and Native American Employment and Training Program*
Fellowships for Graduate and Professional Study Follow-Through	Medicaid
Nursing Loans and Grants*	Medical Care for Low-Income Veterans Without Service-Connected Disability
Health Professions Student Loans and Scholarships	General Assistance (Medical Care Component)
Even Start*	Indian Health Services
Low-Income Home Energy Assistance Program (LIHEAP)	Maternal and Child Health Services Block, Title V of the Social Security Act
Weatherization Assistance	Community Health Centers
Food Stamps	Medical Assistance to Refugees and Cuban/Haitian Entrants
School Lunch Program (Free and Reduced Price Segments)	Migrant Health Centers
Special Supplemental Food Program for Women, Infants and Children (WIC)	Medicare for Poor Persons
Temporary Emergency Food Assistance Program (TEFAP)	Social Services Block Grant (Title XX)
Nutrition Program for the Elderly	Community Service Block Grant
School Breakfast Program (Free and Reduced Price Segments)	Legal Services
Child Care Food Program	Emergency Food and Shelter Program
Summer Food Service Program for Children	Social Services for Refugees and Cuban/Haitian Entrants
Food Program for Needy Indian Families	Title X Family Planning
Commodity Supplemental Food Program (CSFP)	VISTA
Special Milk Program (free segment)	Child Welfare*
Section 8 Lower-Income Housing Assistance	Title III Supportive Services, Older Americans Act*

Note: \* Current program not included in Congressional Research Service List.

Source: Robert Rector, Heritage Foundation, cited in *Issues '94: The Candidate's Briefing Book* (Washington, DC: Heritage Foundation, 1994), p. 120.

*"Total welfare spending equals \$8,939 for every poor person, or \$35,756 for a family of four."*

## How Much Are We Spending on Welfare?

That's not easy to find out. Robert Rector of the Heritage Foundation laboriously identified all of the federal programs that make benefits available based on low income. The full list, shown in Table I, includes many programs not listed under conventional government accounting and shows that the federal government currently funds at least 79 interrelated and overlapping means-tested welfare programs, not including Social Security and Medicare. In addition to their contributions to these federal programs, most states provide other programs, including programs for general assistance or general relief, public housing and medical general assistance. The amount spent under federal programs alone is quite large:

- The total cost of means-tested federal and state welfare programs equaled \$305 billion in fiscal year 1992 (the latest year for which complete statistics are available), or about 5.2 percent of GDP.<sup>3</sup>
- We estimate that figure will exceed \$350 billion, or 5.3 percent of GDP, for fiscal year 1994.
- This is the highest level of welfare spending in history, whether measured in inflation-adjusted constant dollars or as a percent of GDP. [See Figures I and II].
- Today's total welfare spending is almost three and one-half times the \$106 billion (in constant dollars) spent on welfare in 1980, the year Ronald Reagan became president.
- Welfare spending is more than 35 times the \$9.6 billion spent on welfare in 1965, when the War on Poverty began.
- Today, America spends more on welfare than on national defense.<sup>4</sup>

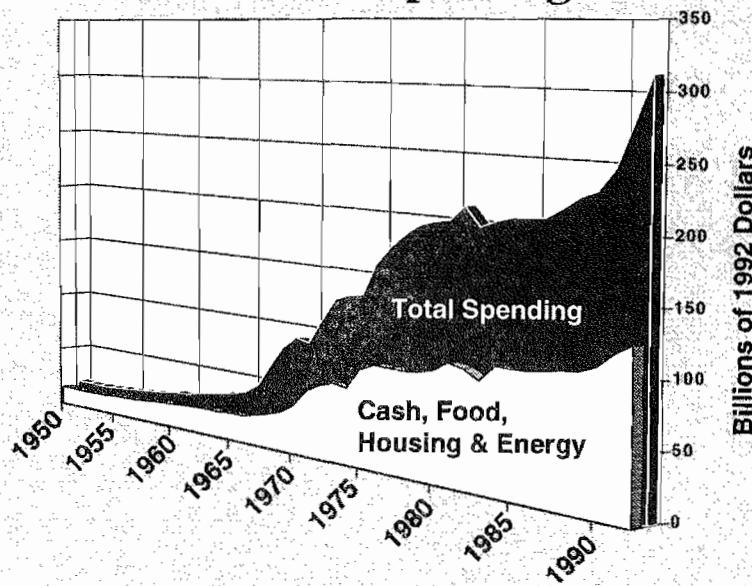
This spending is projected to continue growing at a fast rate. By 1998, the Congressional Budget Office (CBO) estimates that welfare spending will exceed \$500 billion, an increase of more than 64 percent since 1992.<sup>5</sup>

To put the size of the welfare system in perspective, consider the amount we spend in relation to the various measures of need:

- *If we took all of our welfare dollars and simply gave them to people who are living below the official poverty level, we could give every poor person \$8,939.<sup>6</sup>*
- This outright gift would equal \$35,756 for a family of four — more than the average family income for the population as a whole.<sup>7</sup>

*"We are spending more on welfare than on national defense."*

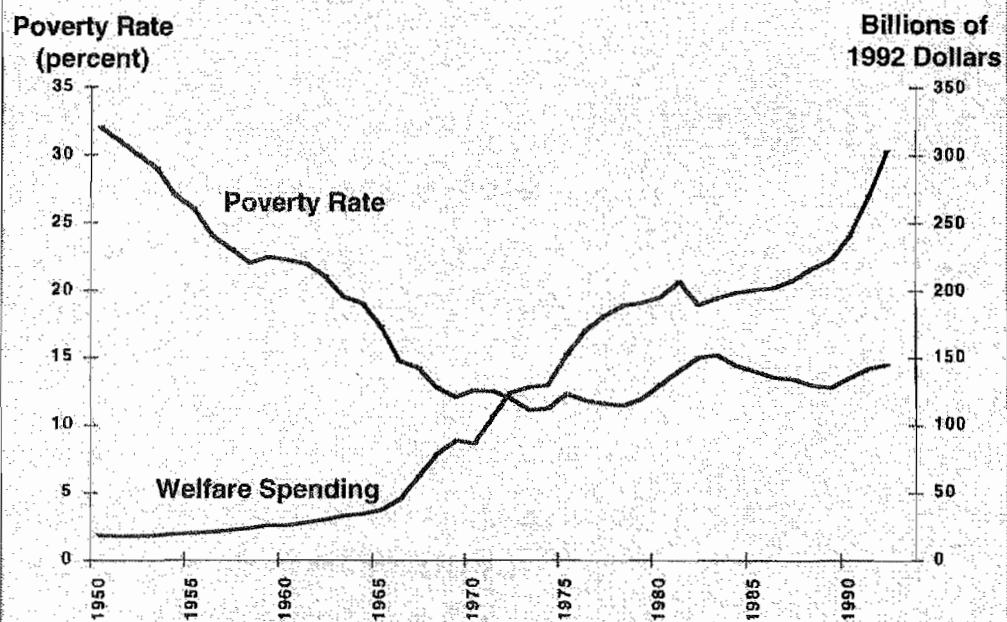
**FIGURE I**  
**U.S. Welfare Spending**



Source: Calculations by Robert Rector, Heritage Foundation, cited in Peter S. Ferrara, ed., *Issues '94: The Candidate's Briefing Book* (Washington, DC: Heritage Foundation, 1994), pp. 122-23.

**FIGURE II**  
**The Poverty Paradox:  
The Poverty Rate and Welfare Spending**

*"Since 1965, we have spent \$5 trillion on welfare programs, but the poverty rate is higher today than when the War on Poverty started."*



Source: Calculations by Robert Rector, Heritage Foundation, cited in Peter S. Ferrara, ed., *Issues '94: The Candidate's Briefing Book* (Washington, DC: Heritage Foundation, 1994), pp. 122-23.

- Looked at another way, the difference between the non-welfare cash income of poor people and official poverty level income (the “poverty gap”) was about \$94 billion in 1992.<sup>8</sup>
- *Thus we could theoretically eliminate poverty in the United States through outright gifts of one-third of the amount we currently spend on welfare.*<sup>9</sup>

Of course, these are not practical suggestions. For one thing, some antipoverty funds go to near-poor people who might fall below the poverty level without welfare. A more important practical problem is that giving more cash to the poor would encourage the near-poor to earn even less. However, the above thoughts do raise questions about how wisely our antipoverty dollars are spent.

## Are We Taxpayers Getting Our Money’s Worth From the Welfare System?

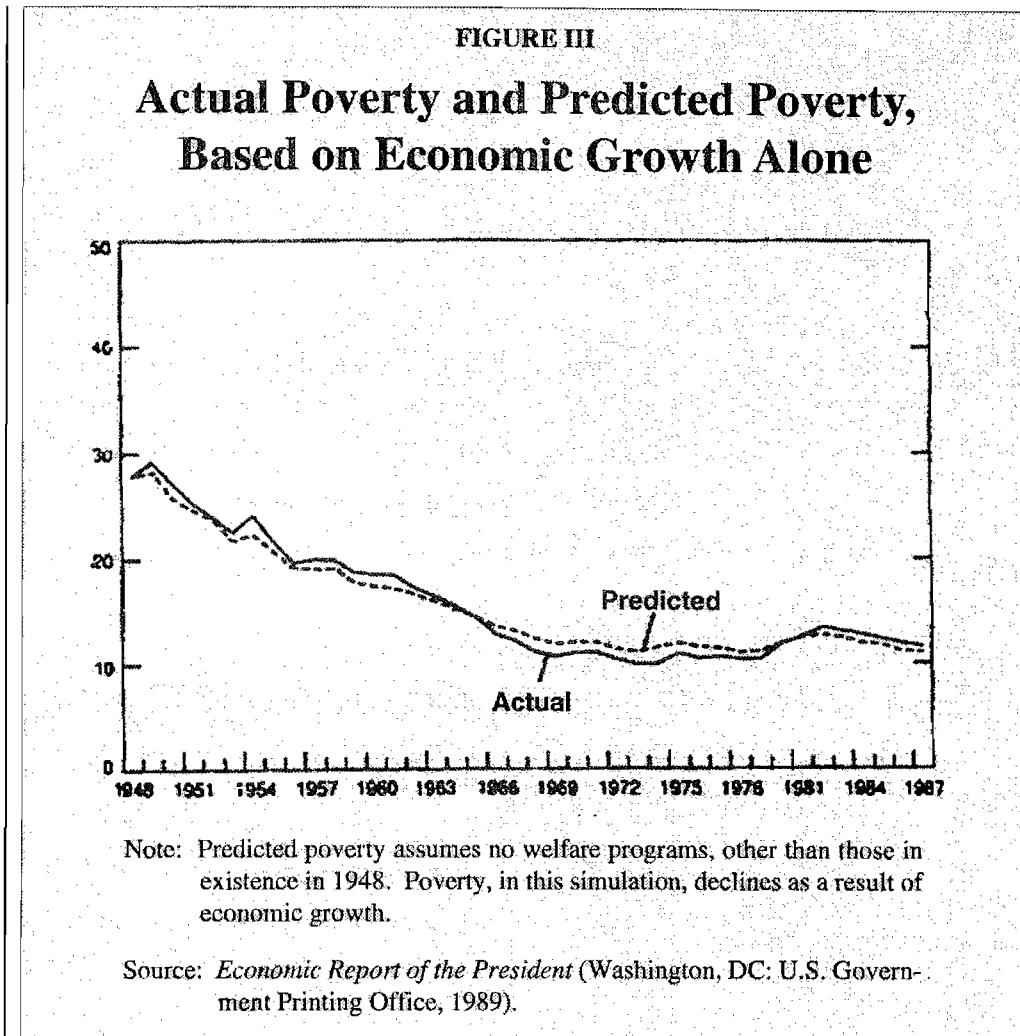
*“Theoretically we could eliminate poverty by outright gifts of one-third of the poverty budget.”*

A casual look at the evidence suggests that we are not. The poverty rate dropped precipitously after World War II, declining from 32 percent in 1950 to 14.7 percent in 1966, when the War on Poverty was getting under way. In the late 1960s, the poverty rate stopped declining and remained at 12 to 13 percent from 1968 to 1978.

In the late 1970s, the poverty rate started increasing. From 1978 to 1987, the rate jumped from 11.4 percent to 15.2 percent, an increase of one-third, and it has remained close to that level ever since. In 1993, the last year for which official data are available, the poverty rate was 15.1 percent — higher than the poverty rate in 1966. [See Figure II.]

**How Much Poverty Would We Have Today If There Had Never Been a Welfare State?** Suppose we had never had Aid to Families With Dependent Children (AFDC), food stamps or any other federal welfare program. How much poverty would there be today? That calculation by the President’s Council of Economic Advisers was published in the *Economic Report of the President* in 1989. The report concluded that:<sup>10</sup>

- Economic growth alone naturally raises more and more people out of poverty.
- Without welfare, economic growth would have produced a poverty rate about the same as, or a little lower than, the one we have today.



**Are the Poor Really Poor?** A little-known fact is that there is a welfare-poverty industry with a self-interest in expanding welfare spending and increasing the number of poor who furnish the rationale for that spending. How is it possible to spend larger and larger sums and still increase the amount of poverty? Official measurements of poverty count only money income and ignore in-kind (noncash) benefits such as medical care, food stamps and public housing. By spending ever-increasing amounts on in-kind benefits, the welfare establishment has managed to make welfare increasingly attractive without disqualifying recipients by endangering their status as "poor."<sup>11</sup>

- Between 1972 and 1993, total cash transfers to the poor barely changed at all in real terms.<sup>12</sup>
- Over the same period, total welfare spending in real terms almost tripled.<sup>13</sup>

America's poor do not live lavishly, but few households are destitute. The average "poor" American lives in a larger house or apartment, is more likely to own a car and is more likely to have basic amenities such as an indoor toilet than the general population of Western Europe. In addition:<sup>14</sup>

- 53 percent of poor households have air conditioning;
- 91 percent own a color TV and 29 percent own two or more color TVs;
- 64 percent own a car and 14 percent own two or more cars;
- 56 percent own a microwave oven; and
- 40 percent own their home, with 71,000 owning homes worth more than \$300,000.

*"Among poor people, 64 percent own a car and 91 percent own a color TV."*

**Are Poor People Going Hungry?** Poverty-induced malnutrition is almost nonexistent in the U.S. Those living below the poverty line have essentially the same level of nutritional intake as the middle class. In fact, the major nutrition problem of the poor is not hunger but obesity; they have a higher rate of obesity than the general population.<sup>15</sup>

## Does Welfare Cause Poverty?

That there is a problem with the U.S. welfare system is confirmed by evidence from many sources. The evidence comes from anecdotal reports, scholarly analyses and statistical tests. All told, the evidence of a problem is clear, unmistakable, undeniable and, quite frankly, overwhelming.

**Scholarly Studies of the Culture of Poverty.** Beginning in the late 1950s, studies of the welfare system were conducted by scholars focusing on the culture of poverty. None of these studies actually proved that welfare was causing poverty. Yet each analyzed a particular dimension of the poverty culture in a powerful and persuasive way.

- Anthropologist Oscar Lewis used the phrase “culture of poverty” to indicate that the poverty he observed among Puerto Rican families in New York in the 1950s was not just a temporary economic condition, but a way of life reinforced by despair of achieving even meager economic goals.<sup>16</sup>
- In the 1965 book *The Negro Family*,<sup>17</sup> Daniel Patrick Moynihan, then a professor at Harvard University, expressed alarm over the fact that 20 percent of all black children were living in single-parent households (today the figure is 70 percent) and advised the Nixon administration to quit pouring money into the black community and pursue a policy of “benign neglect.”
- In the pathbreaking book *Welfare*, Martin Anderson, a senior fellow at Stanford University’s Hoover Institution and a chief of the Office of Policy Development in the Reagan White House, calculated effective marginal tax rates for low-income workers and concluded that the welfare system was designed from top to bottom to encourage dependency and discourage self-reliance.<sup>18</sup>

*"Scholars believe that it is the culture of poverty, not lack of income, that causes the problem."*

- In the 1970s, sociologist George Gilder spent several years living among poor welfare recipients. In *Visible Man*<sup>19</sup> and *Wealth and Poverty*,<sup>20</sup> he analyzed in great detail how the welfare system was destroying the family, especially the black family, in low-income communities.
- More than any other single study, Charles Murray's *Losing Ground*<sup>21</sup> shocked liberals and conservatives alike by arguing that in our central cities the black family has been all but destroyed, chiefly by the welfare system.
- The idea that poverty is the result of a cultural pathology was given more credibility with the 1982 publication of journalist Ken Auletta's work, *The Urban Underclass*.<sup>22</sup>
- In *The Truly Disadvantaged*<sup>23</sup> (1987), liberal sociologist William Wilson argued that the culture of the underclass is an adaptation to social forces over which the poor have little control; as working-class families and businesses move to the suburbs, those left behind form an adaptive culture that relies on welfare, street hustling and crime to survive in an isolated wasteland.
- In 1993, Michael Katz argued in *The "Underclass" Debate*<sup>24</sup> that the emergence of a hostile and desperate underclass is the result of a collapse of community and that the only viable institutions left in the inner city are the private agencies and churches that provide some limited level of "civil society."

One criticism of these studies is that no rigorous statistical tests support their conclusions. Social scientists, by nature, like controlled experiments and rigorously developed econometric tests of important propositions. Now, this kind of evidence is in hand. Let's take a closer look.

## Paying People Not to Work

The escalation of the War on Poverty coincided with a sharp reduction in work effort by the poor.

- In 1960, nearly two-thirds of households in the lowest one-fifth of the income distribution were headed by persons who worked.<sup>25</sup>
- By 1991, this figure had declined to around one-third, with only 11 percent of the heads of households working full-time, year-round.<sup>26</sup>

This change is not hard to understand. The welfare state has increased the penalties for working and the rewards for not working.

**Incentives to Choose Welfare Over Work.** According to the CBO, about 50 percent of unwed teen mothers go on welfare within one year of the

*"Welfare encourages dependency."*

birth of their first child and 77 percent within five years. Almost half of those on the rolls for three or more of the past five years started their families as unwed teens.<sup>27</sup> The vast majority of teen mothers never finish high school and, without education, have little hope of employment beyond low-skill, minimum wage jobs. The average annual earnings for female high school dropouts are extremely low. In 1992, 18- to 24-year-old dropouts working full time earned \$12,900 and 25- to 35-year-olds earned \$14,800.<sup>28</sup> (The poverty level in 1992 for a family of three was \$11,186.)

Worse, there is little incentive to get off welfare. In Illinois, for example, a teen mother with two children receives \$10,876 in cash grants, plus housing and Medicaid benefits.<sup>29</sup> Why should she work 40 hours a week for \$2,000 more when it could cause her to lose housing and health care benefits? And who would care for the kids?

**Effective Marginal Tax Rates for Low-Income Families.** In contrast to the rewards for not working, the penalties for working are quite high. The near-poor face the highest marginal tax rates of any income group. The marginal tax rate is the amount government takes out of an additional dollar of income. As Figure IV shows:

- The withdrawal of food stamps and the Earned Income Tax Credit, when combined with other taxes, can leave a family earning \$20,000 with only 30 cents out of each extra dollar of earnings.<sup>30</sup>
- If major health reform such as the Mitchell bill had been enacted, a family in this income range would have been left with only 5 cents out of each additional dollar of earnings.<sup>31</sup>

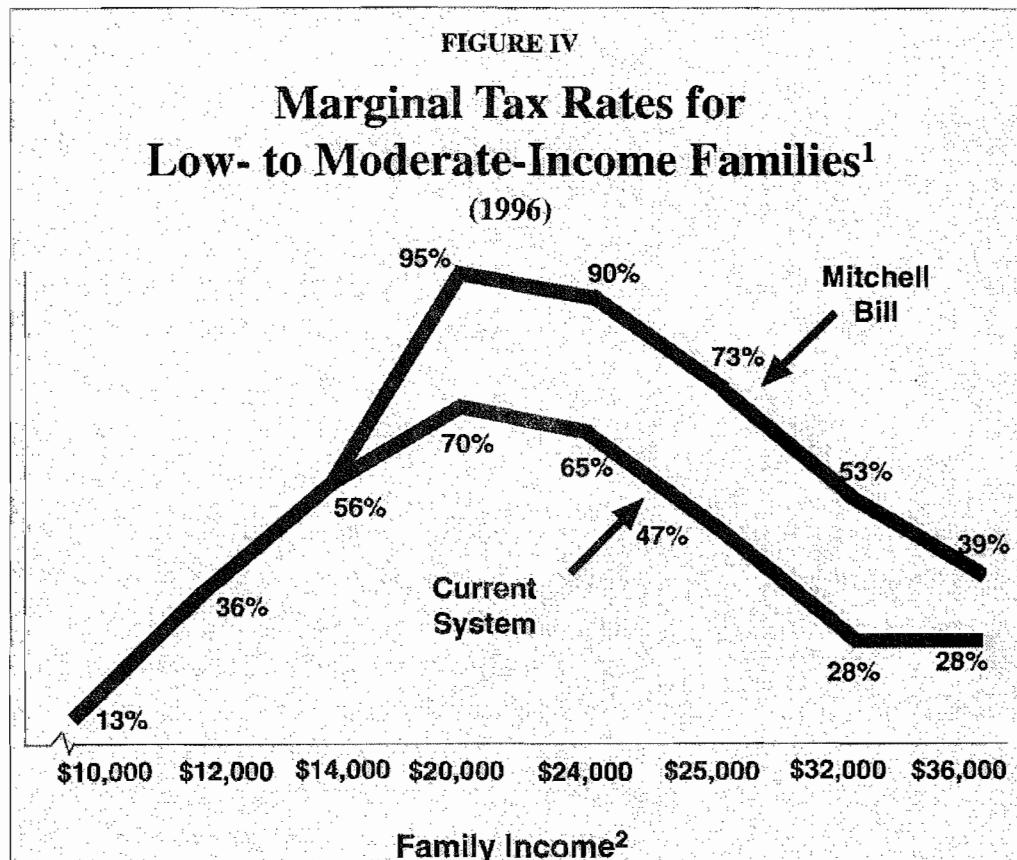
**Statistical Studies.** Numerous studies have found a strong correlation between the generosity of welfare and the reduction in work effort.<sup>32</sup> A recent study by economists Anne Hill and June O'Neill found higher benefits directly correlated with increasing numbers of women leaving the labor force to receive welfare benefits. *A 50 percent increase in monthly AFDC and food stamp benefits led to a 75 percent increase in the number of women enrolling in AFDC and a 75 percent increase in the number of years spent on AFDC.*<sup>33</sup> Other studies, including those from traditionally liberal sources such as the Wisconsin Institute for Research on Poverty and the Urban Institute, have confirmed the problem. For example:

- One study concluded that by 1981 all transfer payments, combined, had reduced the labor force by 4.8 percent — a number that would equal approximately 6 million people today.<sup>34</sup>
- Another study suggested that the Reagan welfare budget cuts in the early 1980s increased the labor force by as many as one million people.<sup>35</sup>

Probably the most sweeping welfare study in history was conducted in the 1970s by the federal government's Office of Economic Opportunity to examine the effect of welfare benefits on work effort. The study involved the provision of special welfare benefits to groups of recipients in Seattle and Denver from 1971 to 1978 and became known as the Seattle/Denver Income Maintenance Experiment, or SIME/DIME. The study was designed by advocates of expanding welfare who had hoped it would prove that generous welfare benefits did not adversely affect the degree of work by recipients.

What the study proved, overwhelmingly, was just the opposite. It found that every \$1 of extra welfare given to low-income persons reduced labor and earnings by 80 percent.<sup>36</sup> Compared to similarly situated families not on welfare, families who were given the extra income changed their behavior substantially.<sup>37</sup>

*"High effective marginal tax rates discourage productive work."*



<sup>1</sup> Shows the combined effects of the federal income tax and Social Security (FICA) taxes and the phase-out of the Earned Income Tax Credit, the food stamp program and health insurance subsidies under the Mitchell bill (with no employer mandate).

<sup>2</sup> Pretax income, including the employer's share of Social Security (FICA) taxes. All figures are for a family of four (husband, wife and two children).

- The number of hours of work dropped 9 percent for husbands, 20 percent for wives and an incredible 43 percent for young male adults.
- The length of unemployment increased 27 percent for husbands, 42 percent for wives and 60 percent for single female household heads.

## Paying People Not to Marry

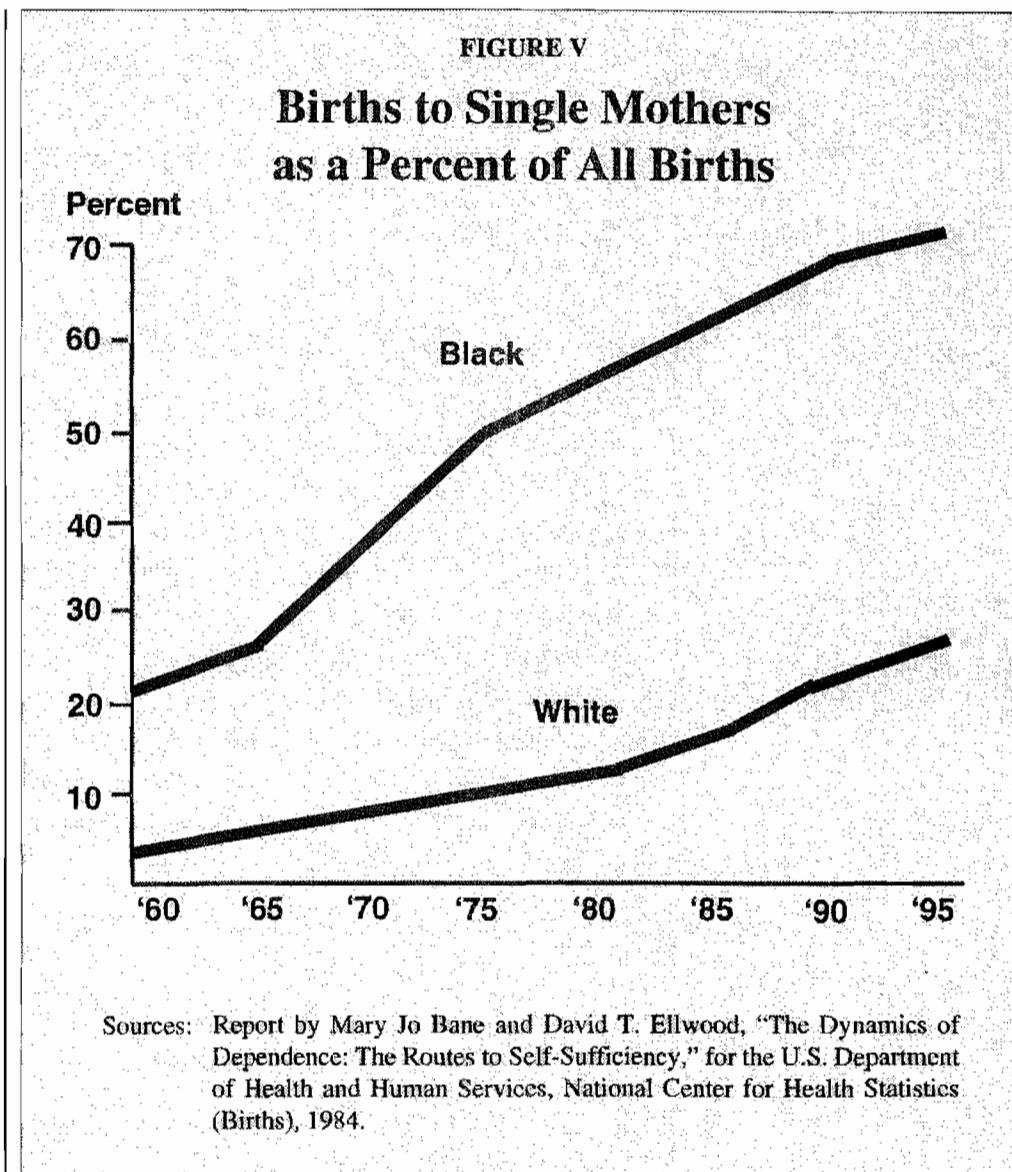
*"The federal government's own pilot programs showed that welfare causes people to work less and earn less."*

A third of all entrants into AFDC are single women and their children; in urban black ghettos the rate is two-thirds.<sup>38</sup> The culture of poverty that has developed in the inner cities has removed the stigma from illegitimacy, which suggests that environment ("the neighbor effect") is a major factor in behavioral pathologies. As liberal political philosophy reshaped social policy from the mid-60s to the mid-70s, the combined purchasing power of AFDC and food stamps increased 40 percent. During these same years, court decisions and the dismantling of administrative barriers caused the number of single mothers receiving AFDC to jump from 29 percent to 63 percent.<sup>39</sup> As Figure V shows, the rate of births to single women grew most rapidly during the same period, doubling in both the white and black communities. Moreover, these trends have continued:<sup>40</sup>

- The out-of-wedlock birth rate for blacks soared from 28 percent in 1965 to 68 percent in 1991.
- Although the rate for whites was only 4 percent in 1965, the rate among white high school dropouts today is 48 percent.
- In 10 major U.S. cities in 1991, more than half of all births were to single women.

Recent research has documented the direct connection between these phenomena and generous welfare benefits.<sup>41</sup>

- Professor C.R. Winegarden at the University of Toledo found that half the increase in the black out-of-wedlock birth rate in recent decades was caused directly by the perverse incentives created by welfare.<sup>42</sup>
- Professors Shelly Lundberg and Robert Plotnick of the University of Washington found that increasing welfare benefits by roughly \$200 per month per family causes a state's teenage out-of-wedlock birth rate to increase by 150 percent.<sup>43</sup>
- Professor June O'Neill of Baruch College in New York City found that a 50 percent increase in the value of monthly AFDC and food stamp payments results in a 43 percent increase in the number of out-of-wedlock births in a state.<sup>44</sup>



- Professor Robert Hutchens of Cornell University found that a 10 percent increase in a state's AFDC benefits causes the marriage rate of single mothers to decrease by 8 percent.<sup>45</sup>
- Mikhail Bernstam of the Hoover Institution found that in cities with high concentrations of blacks, the birth rate among single teenage women increases 10 percent for each 10 percent increase in welfare benefits.<sup>46</sup>

Yet not everyone agrees with the results of these studies. Welfare critic Charles Murray was unable to find a statistically significant correlation between births to black single mothers and the value of welfare benefits, although he did find a relationship for white women. Murray concluded that it is not the variation in welfare benefits that is most important but the culture of poverty that the welfare system supports and maintains.<sup>47</sup>

## Subsidizing the Breakup of Families

*"In the federal government's pilot programs, a guaranteed income caused divorce to increase 36 percent for whites and 42 percent for blacks."*

The percentage of children in single-parent homes has more than tripled in the last three decades, growing from 9.1 percent in 1960 to 28.6 percent in 1991.<sup>48</sup> Children not born to single mothers arrive in the single-parent households by means of their parents' divorce or separation. And the welfare system is a major reason why. Nearly half of all entrants into AFDC are the result of the breakup of the family. [See Figure VI.] Liberalized eligibility and increased benefits have enabled women to raise children without husbands. The real constant value of assistance, including housing and Medicaid benefits, jumped from \$600 per month to \$1,200 per month from 1965 to 1975.<sup>49</sup> Even well-intentioned fathers experiencing long periods of unemployment have concluded that the best way to provide for their children was to dissolve their marriages so their families could qualify for assistance. As jobs have left the inner cities, this conclusion has been increasingly reached by the black poor.<sup>50</sup>

Some of the strongest evidence for a powerful effect of welfare on marriage comes, once again, from the SIME/DIME experiments. In response to a guaranteed income, divorce increased 36 percent among whites and 42 percent among blacks.<sup>51</sup> Another study by the General Accounting Office (GAO) focused on what happened to the behavior of people when welfare benefits were reduced.<sup>52</sup> In 1981, the Reagan administration tightened eligibility rules for AFDC. The new rules made it more difficult for the less needy to get benefits and led to about 500,000 fewer AFDC recipients per year. A large number of welfare mothers throughout the country lost their AFDC benefits, and more than half of them also lost food stamp benefits.

The GAO study focused mainly on welfare mothers who were earning a private income before and after losing their AFDC benefits. The study showed that approximately two years after losing AFDC benefits:

- On the average, welfare mothers had increased the number of hours they worked, were commanding a higher hourly wage and overall had significantly increased their real earned income.
- In Boston, 43 percent of the welfare mothers had as much or more total income after losing their welfare benefits as they had before. (Their average real income from working increased 25 percent.)

Not only did the welfare mothers who lost AFDC benefits respond by changing their work behavior, they also reacted to the loss of welfare benefits by making important changes in their family lives.

- Two years after losing AFDC benefits, a significant number of welfare mothers had increased their family size by at least one adult.
- In Syracuse, 19 percent did so and in Dallas, 22 percent did so.

## What's Wrong With Single-Parent Families?

*"Denied welfare benefits, 22 percent of a sample of Dallas women increased their family size by at least one adult."*

It is not obvious that two parents are always better than one. There are circumstances where one parent is better, especially if the absent parent was abusive. However, scholarly studies show that single parenting increases the likelihood of poverty and welfare dependency. Moreover, children of single parents are more likely to have psychological problems, fail to achieve their educational potential and turn to crime — especially within the culture of poverty.

**Single Parenting, Poverty and Welfare.** Those who choose to be single parents are more likely to be poor; those who are poor are more likely to turn to welfare; and welfare enables and sustains the choice to be a single parent. Statisticians and econometricians have had difficulty sorting out the causal links of this complex cycle, but the general associations are evident.

- The poverty rate for female-headed households with children is 44.5 percent, compared to 7.8 percent for married couples with children.<sup>53</sup>
- The poverty rate for children under age 6 who live with only their mother is 66 percent compared to 12 percent for those who live with both parents.<sup>54</sup>
- Overall, single-parent families account for 65 percent of poor families with children and over half of all poor families.<sup>55</sup>

Moreover, the children of single parents are more likely to be part of the welfare system.

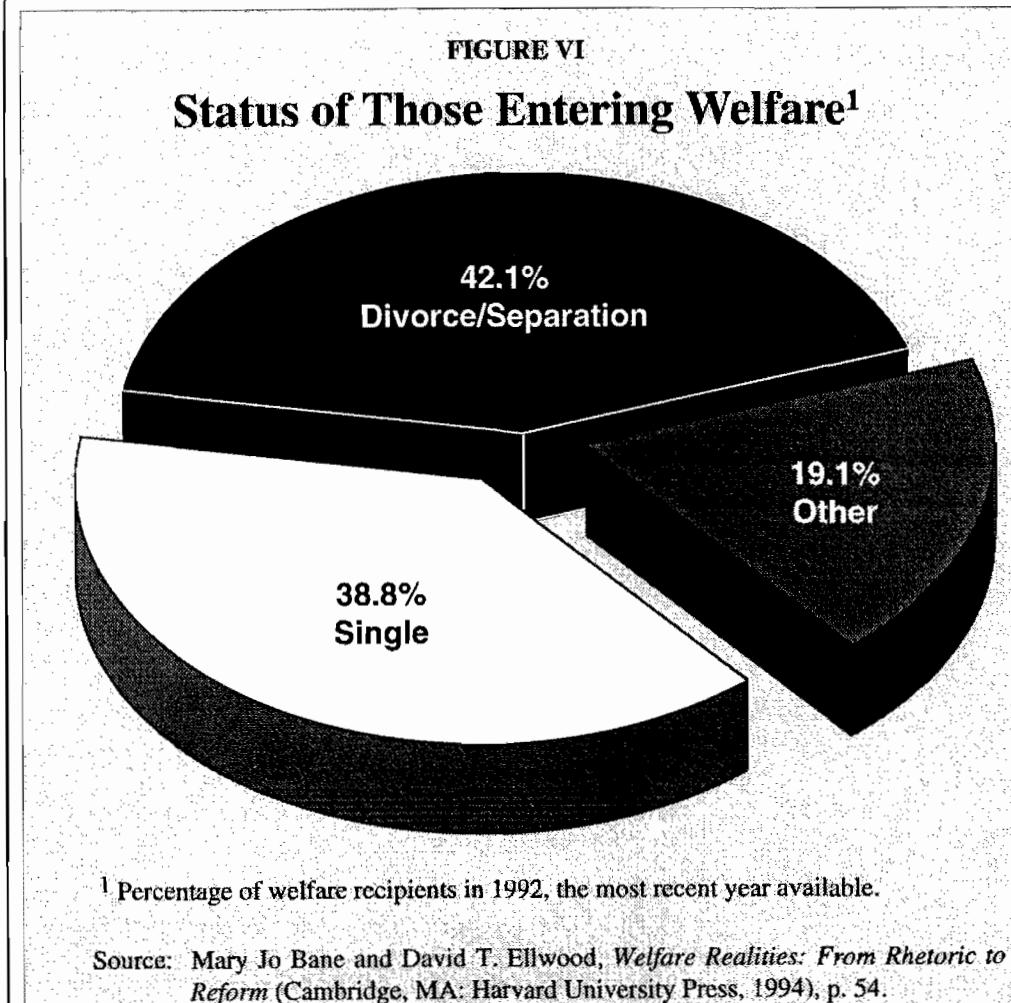
- Almost 70 percent of single-parent families with children and more than 80 percent of never-married mothers receive some government assistance.<sup>56</sup>
- As result, more than one child in eight is being raised on welfare through the AFDC program, up by 50 percent since 1970.<sup>57</sup>

**Long-Term Dependency.** Of the 4.5 million households currently receiving AFDC, well over half will depend on the program for over 10 years and many for 15 years or longer.<sup>58</sup> Studies show that single-parent families are far likelier to remain poor and dependent over the long term.

- Former Harvard University Professor David Ellwood, now Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services, reports that 73 percent of children in single-parent families will be poor at some point in their childhood, compared to 20 percent of those in two-parent families.<sup>59</sup>
- Ellwood also reports that 22 percent of children in one-parent families will be poor for seven years or more, compared to only 2 percent from two-parent families.<sup>60</sup>
- Moreover, single parenting is associated with intergenerational dependency: children raised in single-parent families are three times more likely to become welfare recipients as adults.<sup>61</sup>

**Psychological Effects on Children.** Other things equal, two parents are better than one for the healthy psychological development of children.

- Children from single-parent homes tend to fall behind in educational achievement, perform poorly on standardized tests and indicate lower IQs, even when studies control for differences in family incomes.<sup>62</sup>



*"Divorce, separation and having children out-of-wedlock are the primary reasons women go on welfare."*

*"Children of single parents are more likely to have psychological problems."*

- Children in single-parent families are three times more likely to fail and repeat a year in grade school; they are more likely to be late, absent and subject to disciplinary action; and they are twice as likely to drop out of school altogether.<sup>63</sup>
- Numerous studies show that children from single-parent families are substantially more likely to use drugs.<sup>64</sup>
- Children from single-parent families are two to three times more likely to experience mental illness or other psychological disorders; several studies have shown around 80 percent of children admitted to psychiatric hospitals coming from single-parent homes.<sup>65</sup>
- Single-parent children are also more likely to commit suicide; the suicide rate among teenagers has more than tripled since 1960, and suicide is now the third leading cause of death among teenagers.<sup>66</sup>

Moreover, the children of single parents are themselves more likely to be single parents when they grow up:

- Young white women raised in single-parent families are 165 percent more likely to have children out of wedlock and 111 percent more likely to have children as teenagers than are women from two-parent families in similar socioeconomic conditions; in addition, if they do marry, their marriages are 92 percent more likely to end in divorce.<sup>67</sup>
- Similar disparities are found among black families.<sup>68</sup>

**Single Parenting and Crime.** The breakdown of the family fostered by welfare contributes greatly to the tidal wave of crime that is engulfing America, mainly because young males raised without fathers are far more likely to commit crimes. It is not race that is the principal determinant of antisocial activity, but out-of-wedlock births.<sup>69</sup> Childhood rejection and abandonment are the strongest correlates to hostility and violent behavior in later life. Moreover, the predictors of crime committed by whites are in large part identical in magnitude to those for blacks.<sup>70</sup> Overall:

- The rate of arrest for juvenile violent crimes has more than tripled over the past three decades, echoing the upsurge in single-parent households.<sup>71</sup>
- High out-of-wedlock birth rates correlate with high crime rates among young men.<sup>72</sup>

- Studies show that most gang members come from single-parent homes.<sup>73</sup>
- Of juvenile delinquents in state reform institutions, 70 percent had lived in single-parent homes or with someone other than their natural parents.<sup>74</sup>
- One study found that 60 percent of rapists come from single-parent backgrounds.<sup>75</sup>
- Another study found that 75 percent of adolescent murderers come from single-parent homes.<sup>76</sup>
- Perhaps the most powerful study of all, published in 1988 in the *Journal of Research on Crime and Delinquencies*, found that neither poverty nor race is significantly correlated with crime when family structure is taken into account; the most crucial factor is the proportion of single-parent households.<sup>77</sup>

*"Single parenting correlates with crime far more than poverty or race."*

## Rethinking the Welfare System

Clearly, the current system not working well. But before turning to solutions, let's take a closer look at the theory behind the welfare state.

**Two Views of Poverty.** When welfare policy is set by government (whether at the national, state or local level), politicians invariably search for a single, all-encompassing explanation of what the welfare program is supposed to do. As a result, they usually apply a single set of rules to all beneficiaries, regardless of individual circumstances.

It is within this context that two opposing views of poverty clash. One view defines poverty as an income problem caused by conditions over which low-income individuals have no control. The other view defines poverty as largely a behavioral problem that individuals can, in principle, control. The former view has been forcefully espoused by such contemporary writers as Michael Harrington, Sar A. Levitan, Clifford M. Johnson and John E. Schwartz.<sup>78</sup> The latter has been expressed with equal vigor by Warren Brookes, George Gilder and Charles Murray.<sup>79</sup>

The argument that poverty is caused by conditions over which low-income people have no control is not new. Nineteenth-century critics of the Elizabethan Poor Laws, such as Charles Dickens, Arnold Bennett and George Lansbury, repeatedly emphasized this view and attacked the Poor Law system as inhumane. For example, of a visit to a workhouse for the poor, Lansbury once wrote:

*"There is nothing new about our welfare-poverty debate."*

Going down the narrow road, ringing the bell, waiting while an official with a not-too-pleasant face looked through a grating to see who was there, and hearing his unpleasant voice ... made it easy for me to understand why the poor dreaded and hated these places ... It was not necessary to write the words 'Abandon hope all ye who enter here' ... everything possible was done to inflict mental and moral degradation ... of goodwill, kindness, there was none.<sup>80</sup>

On the other hand, there were other prominent people who devoted their lives to improving the plight of the poor, yet concluded that poverty was mainly the result of individual behavior. Charles S. Loch, secretary of the Charity Organization Society, one of the most important private charities in England at the turn of the century, wrote that "Want of employment in nine cases out of ten in which the plea is used is not the cause of distress. It is, as often as not, drink."<sup>81</sup> In Loch's view, it was important that the conditions under which relief was given never be perceived as more desirable than the least appealing job opportunity in the labor market.

**Two Views of Welfare.** These opposing views — poverty as a condition over which people have no control and poverty as an individual behavioral choice — have important implications for public policy.

In modern times, those who approach the problem bureaucratically tend to define it in terms of people's financial condition. Accordingly, the magnitude of the problem is "measured" by federal statisticians who attempt to count how many families have incomes that fall below the official poverty level. The bureaucratic solution is to give poor families enough money to raise their income levels above the poverty line.

It follows that the purpose of welfare is quite simple: to give away money. And, indeed, this is an apt way of describing AFDC, food stamps and other entitlement programs. The bureaucrats who run these programs are literally in the business of giving away money. By and large, the program administrators give little thought to changing their clients' behavior for the better. And defenders of the programs either minimize or ignore the negative behavioral consequences to which the programs lead.

By contrast, those who take a behavioral approach see the U.S. welfare system as one that increasingly rewards bad behavior. Why does America have more and more poverty? To Charles Murray, the answer is straightforward: we are paying people to be poor.<sup>82</sup>

**A Third View of Welfare and Poverty.** It is our position that neither view completely and accurately describes the welfare-poverty crisis. It is true

*"The secret of reform is to devise a way of helping those in need without encouraging neediness."*

*"Among people currently on welfare, more than half will remain in poverty for 10 years or more."*

that some people are poor due to conditions over which they have little or no control. It is also true that others are poor by choice. The U.S. welfare system gives relief to people in need. It also encourages perverse behavior.

The secret of reform is to devise a way of helping those in need without encouraging neediness. We shall argue below that the private sector already has ingenious ways of achieving this goal. But before turning to the private sector, we shall first consider what's wrong with government's practice of treating all aid recipients as if they were identical.

**Long-Term and Short-Term Poverty.** In a fascinating study of the poverty population, Mary Jo Bane and David Ellwood of Harvard University found striking differences with respect to the reasons why people become poor, how long they remain poor and why and how they cease being poor.<sup>83</sup> It is precisely because of these differences that statistical generalizations about the poverty population seem contradictory.

By way of analogy, Bane and Ellwood compare the poverty population to patients in a hospital. Looking at admissions, one will see that the vast majority of patients stay in a hospital for only a short time. Based on that observation, one might conclude that there is no real problem of long-term hospitalization. Yet that conclusion is wrong. Looking at the patients occupying hospital beds on any given day, one will see that the chronically ill, whose stays are long, occupy a large portion of the beds. In other words, the chronically ill account for a small fraction of hospital *admissions*, but they occupy a large fraction of hospital *beds*.

A similar observation may be made about the "admission rate" of nonelderly poor people to the welfare rolls:<sup>84</sup>

- Among people who become poor at any point in time, 45 percent will be out of poverty within one year.
- About 70 percent will be out of poverty within three years.
- Only 12 percent will remain in poverty for 10 or more years.

Statistics such as these are frequently quoted by apologists for the welfare state. Yet they are misleading. The other side of the story is that:

- Among people who currently are receiving AFDC, more than half will remain in poverty for 10 or more years.<sup>85</sup>
- The average black child in poverty today will remain in poverty for almost two decades.<sup>86</sup>

Bane and Ellwood also discovered that even the short-term poor differ radically in the reasons for their poverty and in the ways they get out of

poverty. "Welfare dynamics are multifaceted," the authors say, "and understanding them helps explain both the heterogeneity of the welfare population and the complexity of policy solutions."<sup>87</sup>

These differences are important. Continuing with the hospital analogy, no one in his right mind would recommend that the chronically ill be given the same medical treatment as the short-stay patient or that all short-stay patients be diagnosed and treated in the same way, regardless of medical condition. Yet that is precisely how our government runs the welfare state.

*"It is a mistake to apply a single set of rules to all welfare recipients — as if they were all the same."*

**A Case Study: Boston And Dallas.**<sup>88</sup> Further evidence of the difficulties in generalizing about the effects of welfare — even the effects of a fairly well-structured program like AFDC — comes from a comparison of welfare mothers in Dallas and Boston who lost their AFDC benefits as a result of the 1981 program changes described above. In terms of welfare benefits, Massachusetts is one of the most liberal states in the country. Texas, by contrast, ranks near the bottom of the 50 states in AFDC payments and has a record that many would regard as stingy. The standard monthly AFDC payment to a family of three in Boston in 1981 was more than three times greater than the payment in Dallas (\$379 per month versus \$116). In addition, the Boston AFDC mother had many more opportunities to exploit the entire welfare system.

As Table II shows, the characteristics of welfare mothers who lost their AFDC benefits in Dallas and Boston are quite different.

- With more children and younger children than her Boston counterpart, the welfare mother in Dallas clearly was in greater need.
- After AFDC payments were discontinued, the Boston mother was three times more likely than the Dallas mother to be above the poverty level, three times more likely to have private health insurance and 38 percent less likely to turn to private charity for food.
- There also were clear differences in abilities to compete in the labor market: 29 percent of the Boston mothers had some college education, compared to only 11 percent in Dallas.

Among AFDC mothers who lost their benefits, the average loss in Boston was more than twice the loss in Dallas. In addition, about 85 percent of the Boston women also lost food stamps, compared with only 42 percent in Dallas. Yet despite the greater loss of benefits in Boston, the welfare mothers there suffered much less economic dislocation than those in Dallas.

- Total income for Boston mothers declined only 12 percent, compared to a 31 percent decline for Dallas mothers.

- Boston mothers increased the hours they worked, their per-hour earnings and, on average, their monthly earnings by 25 percent.
- Thirty-five percent of Boston mothers actually had more total income after they lost their AFDC benefits than they had had before.
- In Dallas, with a lower unemployment rate than Boston, there was virtually no increase in average hours worked and only a 6 percent increase in monthly earnings.

It appears that Boston's liberal welfare benefits, doled out to people who were not all that needy, were discouraging productive work and that removing the benefits spurred the recipients to increase their work effort. By contrast, in Dallas, where AFDC mothers had a greater need and less ability to compete in the marketplace, welfare benefits had only a moderately discouraging effect.

A very different story emerges when we look at the effects of welfare on the family.

- In Boston, 5 percent of welfare mothers increased their households by at least one adult.
- By contrast, 22 percent of Dallas mothers increased their households by at least one adult.

It appears that welfare's effect on the family is greatest where it makes the greatest financial difference.

The comparison of these two cities underscores the difficulty in generalizing about the nation's welfare system. Even generalizations about a single city are hazardous. In Dallas, for example, 24 percent of welfare mothers who lost AFDC benefits had real incomes just as high as or higher than they had had when they were receiving benefits and suffered no enduring economic hardship.

## Characteristics of a Good Welfare System

*"Even within a single city, people on welfare are remarkably different."*

The implication of the GAO and the Bane and Ellwood studies is simple yet profound: poor people are as diverse as those in other income groups. The welfare population of one city can differ in remarkable ways from the welfare population of another. Even within a city, one group's response to changes in incentives can differ remarkably from that of another group. This finding means that it is almost impossible to design an effective federalized, one-size-fits-all welfare system.

What do people expect of an effective, responsible welfare system? The following guidelines probably would command broad support:

TABLE II

## Loss of Welfare Benefits: Effects on Welfare Mothers (Two years after loss of benefits)

<u>Loss of Welfare Benefits</u>	<u>Boston</u>	<u>Dallas</u>
Monthly AFDC Payment Lost	\$156	\$71
Percent also losing food stamp benefits	85%	42%
 <u>Characteristics of AFDC Mothers</u>		
At least some college education	29%	11%
Family size (number of people)	2.8	3.4
Percent with children under 6 years old	33%	52%
In public housing or receiving housing subsidy	56%	43%
Number of years since receiving first AFDC payment	8.5	6.1
Number of years between birth of first child and AFDC coverage	4.6	5.3
Percent who received AFDC as a child	19%	16%
Number of years with current employer	3.4	1.7
 <u>Economic Well Being After Loss of Benefits</u>		
Average change in total income	-12%	-31%
Percent whose income was just as high as or higher than when on welfare	43%	24%
Percent whose total income actually increased	35%	21%
Percent with household income above poverty level	66%	18%
Percent with private health insurance policy	49%	16%
Percent with no health insurance of any kind	28%	59%
 <u>Effects of Loss of Benefits on Work</u>		
Increase in hours worked per week	2.2	0
Increase in hourly wage	\$.85	\$.27
Increase in monthly earnings	\$176	\$36
Percentage increase in monthly earnings	25%	6%
 <u>Other Responses to Loss of Benefits</u>		
Turned to private charity for food	15%	24%
Increased household size	5%	22%
Returned to AFDC (usually after ending employment)	11%	22%

Source: *An Evaluation of the 1981 AFDC Changes: Initial Analysis*, General Accounting Office, April 2, 1984.

Although a final report, *An Evaluation of the 1981 AFDC Changes: Final Report*, was released by the GAO on June 2, 1985, some of the computer data for the Boston site were unavailable. However, the numbers that were available support the general conclusions discussed above.

- 1. The system should be guided by the philosophy that most people can and should support themselves and their families.** In the absence of physical or mental impairment, individuals should perceive that society expects them to support themselves and their families.
- 2. People who need aid most should get it first.** Since there always will be a limit to the number of welfare dollars available, the people in greatest need should get the highest priority.
- 3. The way aid is given should encourage independence and self-reliance.** Since the very act of giving relief encourages dependence, procedural incentives for self-sufficiency should be adopted.
- 4. The welfare system should not encourage the breakup of the family.** Family members should never find it in their economic self-interest to separate.
- 5. Short-term help should be available to many, and long-term help should be reserved for a few.** A humane welfare system is one that readily provides temporary and emergency help to those in need while providing permanent aid only to the very few who cannot support themselves.
- 6. The goals of the welfare system should be achieved at the minimum cost.** It is in our self-interest to find the most cost-effective ways of operating the welfare system based on these principles.

## Public Sector Failures vs. Private Sector Successes

*"If volunteer labor is included, the value of private charity exceeds all government welfare spending combined."*

Although volumes have been written about the failures of government welfare programs, the academic and scholarly community has paid surprisingly little attention to private sector charity. Yet the private sector is playing an extremely important role:

- In 1992, total charitable contributions reached \$124 billion, with contributions by individuals accounting for 82 percent (\$101.83 billion) of that total.<sup>89</sup>
- More than 85 percent of adult Americans make some charitable contribution each year.<sup>90</sup>
- About half the adult population did volunteer work in 1991, contributing more than 20 billion hours of labor.<sup>91</sup>
- The dollar value of these contributions of time is at least \$176 billion.<sup>92</sup>
- If the value of volunteer labor is included, private sector contributions to charitable causes are approximately the same as the poverty budgets of federal, state and local governments combined.<sup>93</sup>

In this section we contrast some of the best private charities with federal welfare programs in terms of the characteristics of an ideal welfare system.

**The Nature Of Charity: Entitlements vs. Gifts.** Entitlement programs for welfare are structured so that benefits are granted solely on the basis of personal circumstances. Applicants do not have to give the reasons for their circumstances or explain how they plan to change them in the future. They don't even have to show a willingness to change. In the AFDC program, for example, the requirements for eligibility essentially amount to: (1) low income, (2) very few assets, (3) dependent children and (4) no man in the household. Anyone satisfying these requirements is entitled to benefits. And the word entitlement means "right" — benefits cannot be withdrawn simply because recipients refuse to modify their behavior.

The philosophy of the private sector is quite different. The best private charities do not view the giving of assistance as a "duty" or the receipt of assistance as a "right." Instead, they view charitable assistance as a tool recipients can use intelligently, not only to gain relief but also to change behavior. For example, at many private charities the level of assistance varies considerably from individual to individual. Private agencies usually reserve the right to reduce assistance or withdraw it altogether if recipients do not make behavioral changes.

Many private charities require that a caseworker and an aid recipient develop a plan to move the recipient into self-sufficiency. For example:

- At Jessie's House, a transitional home for the homeless in Hampton, Mass., shelter beyond one week is contingent upon positive evidence of individual improvement.<sup>94</sup>
- At the Dallas Salvation Army, aid varies according to the caseworker's evaluation of the recipient's condition and record of behavioral improvement.<sup>95</sup>

Under entitlement programs, recipients and potential recipients of aid have full freedom to exercise their preferences. In many cases, they choose poverty and, in effect, present the rest of us with a welfare bill we are obligated to pay. Thus, the preferences of public welfare recipients determine the behavior of those who pay the bills.

The philosophy of the private sector is quite different. In general, private agencies allow those who pay the bills to set the standards and expect recipients to change their behavior accordingly. In other words, recipients of private sector welfare must adjust their behavior to the preferences of the rest of society, not the other way around.

*"Private charities exercise subjective judgment and use hands-on management."*

If we accept the view that individuals should take responsibility for supporting themselves and their families and that welfare assistance should be administered in a way that encourages this behavior, it follows that the approach of our best private charities is far superior to that of entitlement programs. Because individuals and individual circumstances differ, it is *only* through hands-on management that we can give relief without encouraging antisocial behavior.

Hands-on management includes the tailoring of aid to individual needs and individual circumstances. Such support, counseling and follow-up is virtually unheard of in federal welfare programs. Indeed, when public welfare recipients request counseling, they frequently are referred to private sector agencies.

**Getting Aid to Those Who Need It Most.** A basic premise of the American system is that government is the last resort. In other words, the role of government is to do those socially desirable things that the private sector either will not or cannot do.

Ironically, in the field of social welfare this premise has been turned on its head. In the early years of the War on Poverty, federal welfare programs were a social safety net — to provide services the private sector, for one reason or another, did not. Now, it is obvious that just the opposite is true — increasingly, the private sector is reaching people whom government does not reach and offering essential services that government welfare programs do not provide.

*"41 percent of all poverty families receive no welfare benefit of any kind from government."*

If a humane welfare system means anything at all, it means getting aid first to people who need it most. One of the most astonishing and least-known facts about the welfare state is how miserably it fails to achieve this goal. Consider that:<sup>96</sup>

- Only 41 percent of all poverty families receive food stamps; yet 28 percent of food-stamp families have incomes above the poverty level.
- Only 23 percent of all poverty families live in public housing or receive housing subsidies; yet almost half of the families receiving housing benefits are not poor.
- Only 40 percent of all poverty families are covered by Medicaid; yet 40 percent of all Medicaid beneficiaries are not poor.
- *Amazingly, 41 percent of all poverty families receive no means-tested benefit of any kind from government;* yet more than half of all families who do receive at least one means-tested benefit are not poor.

Where do people in need turn for help when they aren't getting government assistance? They turn to private charities.

- Ninety-four percent of all shelters for the homeless in the U.S. are operated by churches, synagogues, secular groups and other voluntary organizations.<sup>97</sup>
- A study in Detroit found that 80 percent of low-income people, when faced with a crisis, turned to neighborhood individuals and agencies rather than to government agencies for help.<sup>98</sup>
- Similar findings were reported in a study conducted by the University of Southern California.<sup>99</sup>

**Providing Relief Without Encouraging Dependency.** A major issue in the welfare-poverty industry is whether the recipient of aid should have to “do anything” in order to continue receiving welfare benefits. Nowhere is the controversy more evident than with respect to workfare.

Throughout the 1970s, there was a continuous political battle at the national level over whether welfare should be tied to work. A fascinating account of the politics of the battle was written by Lawrence M. Mead, who documented the lengths to which the welfare bureaucracy lobbied against any workfare requirements.<sup>100</sup> It appeared the welfare bureaucracy lost the battle when Congress passed the Work Incentive (WIN) program and the Community Work Experience Program (CWEP). However, because it administers these two programs, the bureaucracy that lost the battle won the war by finding few AFDC recipients suitable for workfare and channeling those who were into training or school rather than jobs.<sup>101</sup> As noted above, the 1988 Federal Family Support Act mandated that all states create work-for-welfare programs. But like WIN and CWEP, this program did not reduce the welfare rolls significantly.

Our best private charities see independence and self-sufficiency as a primary goal for their “clients.” Often this goal is accomplished by either encouraging or requiring aid recipients to contribute their labor to the agency itself.<sup>102</sup>

**Encouraging the Family Unit Rather Than Encouraging Its Dissolution.** The attitude toward family on the part of private sector charities usually stands in stark contrast to the incentives built into federal programs.

- AFDC eligibility rules in nearly half of the states have not allowed families with a employed father to receive assistance, regardless of how low the family income is; also, in about half of the states, the family has been ineligible if the father is present at all, regardless of employment.<sup>103</sup>

*“Private charities do not regard the receipt of assistance as a ‘right.’”*

- By contrast, at the Dallas Salvation Army shelter for battered and abused women, the mothers of young children are required to either work with professionals to repair their relationships with their husbands or to find employment in order to continue receiving assistance.<sup>104</sup>

**Temporary vs. Long-Term Relief.** A prevalent philosophy in the private sector is that most people are fully capable of taking responsibility for their lives in the long term, but that emergencies and crises occur for which help is both necessary and desirable. As a consequence, private sector agencies make it surprisingly easy for recipients to obtain emergency relief. It really is true that, in America, almost anybody can get a free lunch.

*"In the private sector it is easy to get relief, but hard to continue getting it for a long time."*

The near-universal characteristic of private sector charity is that it's easy to get, but hard to keep. Most government programs, by contrast, have the opposite characteristic: it's hard to get on welfare, but easy to stay there. In the public sector, there are often long waiting times between applying for assistance and receiving aid. One study reported that:<sup>105</sup>

- In Texas, the waiting period is typically two to three weeks for food stamps.
- For AFDC, the waiting period is typically a month after an applicant completes the complicated and cumbersome application forms.
- The Dallas Salvation Army has had to hire a special staff to decipher public welfare regulations and forms so they can refer people who come to them to the proper public agencies.

Once accepted into the public welfare system, however, people find it relatively easy to stay there for a long time:<sup>106</sup>

- Of all women who receive welfare in any given year, about 60 percent receive welfare the next year.
- Among women receiving welfare for two consecutive years, about 70 percent receive it a third year.
- Among women receiving welfare for four consecutive years, about 80 percent receive it a fifth year.

**Minimizing the Cost of Giving.** There is considerable evidence that private sector charity makes far more efficient use of resources than do public welfare programs. Although temporary relief in the form of food or shelter is fairly easy to obtain from private agencies, long-term assistance or assistance in the form of cash is far more difficult. For example:<sup>107</sup>

- Before the Dallas Salvation Army will provide cash to help people defray the cost of rent, recipients must present a court-ordered eviction notice showing failure to pay rent.
- Similarly, before that charity will give financial aid to defray the costs of utilities, the recipient must present a notice of termination of service for failure to pay utility bills.

Even when there is evidence of need, good private charities often seek to determine whether the potential recipient has access to other, untapped sources of assistance. For example:<sup>108</sup>

- Before the Dallas Salvation Army will provide continuing assistance to an individual, a caseworker informs the family — including in-laws — and requests assistance from them first.
- The caseworker also makes sure the individual applies for all other public and private aid for which he or she is eligible.

*"Private sector agencies appear to be more adept at avoiding unnecessary spending."*

Private sector agencies appear to be much more adept at avoiding unnecessary spending that does not benefit the truly needy and at keeping program costs down by utilizing volunteer labor and donated goods.<sup>109</sup>

**Other Evidence of Efficiency.** Private sector charitable activities are diverse and widespread in cities and counties throughout the country. Our knowledge of these activities is skimpy. However, as more research is done the evidence mounts that in area after area the private sector outperforms government:

- Private foster care agencies have shown they can outperform government agencies.<sup>110</sup>
- Private agencies engaged in job training for teenagers<sup>111</sup> and for the mentally and physically handicapped<sup>112</sup> have shown they can outperform government agencies.
- Public housing placed in the hands of tenants costs less and is of higher quality than that owned and maintained by government.<sup>113</sup>
- Private sector crime prevention programs,<sup>114</sup> alcohol and drug abuse programs<sup>115</sup> and neighborhood preservation programs<sup>116</sup> also have proved to be superior to public sector programs.

## Creating a Market for the “Business” of Charity<sup>117</sup>

Why should government dispense charity in the first place? The traditional economic argument is that spending money for the relief of poverty

*"Why should government have a monopoly over our welfare tax dollars?"*

*"Welfare tax dollars almost never go where the taxpayer would have preferred them to go."*

has social effects that extend beyond the interest of the individual giver. Thus giving to charity is different in principle from buying a loaf of bread. The purchaser of the loaf of bread enjoys the full benefits of his purchase when he consumes the product. Yet a gift to charity benefits not only the giver, but also everyone else in society who has an interest in (and gets personal satisfaction from) the charitable objective. As a result, individuals, given complete freedom of choice, will give too little. They will consider only their individual, private benefit from the gift and ignore the social benefits created for others. Put another way, given freedom of choice, people will try to become "free riders" on the charitable gifts of others and fail to contribute their "fair share."

These are the theoretical arguments often used to justify government coercion — to require that people give a certain portion of their incomes for the relief of poverty. They are arguments that, in one form or another, most people accept.

It does not follow that the government should nationalize the charity industry. Government requires licensed drivers to carry automobile liability insurance, but few would argue that it is necessary or desirable for government to nationalize the automobile liability insurance industry.

However, government has assumed the role of a public monopoly in the welfare industry. It has put itself in the position of being the exclusive recipient of charitable contributions taken by coercion (through the tax system) and of having sole discretion over how these dollars are spent.

This is unfortunate, because the most serious defects of the American system of public charity all stem from its monopoly by government. In the first place, under the government's monopoly the dollars almost never go where the givers would have them go. Although the private sector makes voluntary gifts totaling \$124 billion each year,<sup>118</sup> whoever heard of anyone voluntarily giving money to the AFDC or food stamp programs? Furthermore, when spending decisions are made through the political process, it is inevitable that powerful, organized special interests have considerable influence over how the dollars are spent. Thus it is no accident that more than two-thirds of federal welfare spending ends up in the pockets of people who are distinctly not poor. Medicaid dollars go to doctors and hospitals; food stamp dollars go to the agricultural industry; housing subsidies go to landlords; and legal aid dollars go to lawyers. Finally, because it faces no marketplace competition, the public charity monopoly can continue to spend money in wasteful and inefficient ways, to fail miserably in achieving its objectives and to misbehave generally without fear of losing customers to a competitor.

To remedy these defects, public sector charity must be denationalized.

**Proposal A: Competition and Choice.** The basic idea of privatizing public charity is simple. Government would continue to force people to give their “fair share” through income taxes. However, individual taxpayers, rather than politicians, would decide how their share of the welfare bill would be spent by allocating their welfare tax dollars to any qualified charity — public or private. In this way, private charities would compete on an equal footing with government welfare programs for the federal dollars allocated to poverty programs. Furthermore, there would be free and open entry into the market. Anyone could start a private charity and be eligible for “tax dollar contributions,” provided the charity had a social welfare purpose and satisfied certain other minimal requirements.

Proposal A involves partial privatization of public charity. Under the proposal, individuals would be able to allocate up to 20 percent of their personal federal income taxes to qualified private charities and then deduct the 20 percent from their total income tax payments. Alternatively, individuals could instruct the U.S. Treasury (on their income tax returns) to pay up to 20 percent of their taxes to specific private charities. Such private charity allocations would be deducted from the federal government’s poverty budget. In other words, for each tax dollar allocated to private sector charity, public sector charity would be reduced by a dollar.

In 1992, total federal personal income taxes amounted to \$476 billion. Twenty percent of this amount is approximately \$95 billion, or almost half of the federal government’s share (\$197 billion) of spending under federal means-tested programs (\$305 billion). (The remaining \$108 billion was spent by state and local governments.) Had Proposal A been in effect in 1992, individual taxpayers could have allocated almost one-half of the federal welfare budget to private sector programs. If taxpayers did so, Congress would have been required to cut \$95 billion out of public sector programs.

**Proposal B: Competition and More Choice.** Proposal B is a natural extension of Proposal A. It broadens the choice of individual taxpayers by allowing individuals to allocate their entire share of the social welfare budget among all public and private sector agencies and programs. Every agency — public and private — would compete against every other for welfare tax dollars. In principle, Proposal B allows the public to make all of the allocation decisions, although individuals could forgo this responsibility by indicating on their tax returns that Congress should allocate their individual welfare tax dollars.

In 1992, total means-tested welfare spending by the federal government was equal to about 41 percent of all personal income taxes paid that year. Thus Proposal B would give individuals direct control over how 41 percent of their tax dollars would be spent.

*“The proposal: Let taxpayers allocate their own welfare tax dollars.”*

*"Make government programs compete with private charities on a level playing field."*

**Proposal C: Competition and More Choice Still.** Proposals A and B deal only with activities designated as "welfare." They exclude educational, cultural, medical and other human service activities which are not directly related to the problems of poverty. They also exclude research activities such as preparation of this NCPA report. Yet because these activities also have a public nature, it would seem desirable to expand taxpayers' choices to include them as well.

Proposal C would do just that. Under the proposal, Congress would define a "human services budget," which would include spending on poverty programs, education, medical research, arts and cultural programs. (Proposal C would exclude spending on religious and political activities, as would Proposals A and B.) All public and private sector agencies with a human services purpose would compete against one another for taxpayer dollars, and individual taxpayers could allocate their individual shares of the human services budget or turn that privilege over to the Congress.

## Conclusion: Advantages of the Proposals

The three proposals made here would lead to a more humane and desirable welfare system. The proposals would replace public sector monopoly with private sector competition. All charitable organizations would have to persuade the public that their service merited support. Inefficient, wasteful federal programs would lose their uncontested access to taxpayer dollars. Special interest groups would have little access to political largesse. Most important, those of us who give the money would have direct control over how our future welfare tax dollar contributions are spent.

NOTE: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

## Appendix

### Twenty Questions and Answers About the Proposals

**1. How will the “tax dollar contributions” actually get to the private charities to whom they are designated?**

In most cases, the private charities will receive funds exactly as they do now — as checks from givers. Under our proposals, the donor would simply indicate on his income tax return the names and tax I.D. numbers of the organizations to whom he has allocated his tax dollar contributions. However, taxpayers also will have the option of having the U.S. Treasury make the contribution by indicating on their individual tax returns which organizations they wish to give to and in what amounts — just as taxpayers can now allocate \$1 of their taxes to the presidential election campaign fund.

**2. What if an individual wishes to contribute more to charity?**

Individuals will make two types of decisions with respect to private charities: (1) whether to allocate a portion of their welfare tax dollars to the charities and (2) whether to contribute additional dollars. The second category — voluntary, personal gifts — will continue to qualify for tax deductions as they do now.

**3. How would a private organization qualify for tax dollar contributions?**

The procedure would be that already in place for nonprofit organizations wishing to receive tax-deductible contributions. Under Proposals A and B, the organization’s activities would have to be confined to social welfare services. Under Proposal C, educational, cultural and research activities would be included.

**4. Wouldn’t monitoring the private charities receiving tax dollar contributions require a large bureaucracy?**

No. The IRS already has procedures for monitoring nonprofit organizations. There would be no reason to add a new bureaucracy.

**5. What safeguards would be needed to prevent fraud, abuse and cheating?**

A number of safeguards could be established. Here are four of the most important:

- a. Existing IRS regulations governing nonprofit organizations would continue to apply. These include prohibitions against misusing a charitable organization for personal financial gain.
- b. Other, stricter rules also would apply to organizations that receive tax dollar contributions. For example, no one would be allowed to allocate tax dollars to an organization from which he or a family member received a salary or with whom they had substantial business relations. Nor could people make “deals” with each other (“I’ll give to your charity if you give to mine”) in order to circumvent the law. Such rules would be no more difficult to enforce than current IRS regulations.
- c. Special freedom of information rules would apply to organizations receiving the contributions. These rules would make it easy for the public and competing organizations to access financial and other records.

- d. The most important check on an organization's activities would be the self-interested inquiries of its competitors, who would be free to use comparative advertisements in the competition for tax dollar contributions.

**6. Could private charities receiving contributions engage in political activities?**

No. The same prohibitions that now apply to IRS-designated 501(c)(3) nonprofit organizations would apply to organizations receiving tax dollar contributions. Public policy research institutes would be excluded under Proposals A and B, but included under Proposal C.

**7. What about churches and other religious organizations?**

No tax dollar contributions could be given to organizations whose primary purpose is to advance a religion. However, religious organizations could form subsidiaries such as soup kitchens, and tax dollar contributions could be given to these social welfare subsidiaries. Organizations that primarily serve a social welfare function but have a religious dimension, such as the Salvation Army, could receive tax dollar contributions.

**8. If people chose to allocate a certain portion of their taxes to private charities, which federal programs would lose money?**

Under Proposal A, tax dollars allocated to private charities would be made up by cuts in the budgets of means-tested federal welfare programs. The cuts would be made by Congress. Under Proposals B and C, individual taxpayers could allocate their tax dollars among all authorized private and public programs, and Congress could allocate those funds over which individual taxpayers gave them domain.

**9. Don't private charities already spend too much money on fundraising? Wouldn't this problem be worsened by the kind of aggressive competition you propose?**

It is possible. However, the best advertising not only persuades but also informs. Right now, there is too little information about public and private charities and what they do. Furthermore, some of the best private charities have discovered the value of disclosing how little they spend on fundraising. For example, the Kansas City Salvation Army, with a budget of over \$5 million, spends only eight cents on fundraising for every dollar it raises. If the value of volunteer labor is included, the organization probably spends less than a penny of every dollar on fundraising. In our opinion, that's a good argument for giving to the Kansas City Salvation Army.

**10. Won't most of the contributions go to agencies with slick advertising campaigns rather than to those that do the best job?**

Not necessarily. People can be fooled some of the time but, as many a bankrupt businessman knows, they cannot be consistently fooled.

**11. Given the complexity of the welfare-poverty industry, how can an average citizen make intelligent choices about where his tax dollar contributions should be spent?**

One option is to rely on the advice of "experts." Right now, the taxpayer has to take the advice of one particular group of experts — the U.S. Congress. Our proposal would preserve that option while also allowing individuals to consult experts whose opinions were not distorted by the desire to get reelected.

**12. Since each individual taxpayer would make decisions without knowing what decisions everyone else was making, couldn't the result be generally unacceptable and even bizarre?**

Let's take an example. Suppose everyone in the nation decides to donate all of his tax dollar contributions to the Salvation Army, on the assumption that other people will give to other causes, such as suicide prevention centers and homes for battered women. When the results are in, we learn that the Salvation Army is overfunded and many other worthy causes have no money at all. Seeing this result, people wish they could go back and change their minds, but they can't.

Could something like this actually happen? It's extremely unlikely. In the first place, people contribute to private charities every day without consulting their neighbors. The results of such private giving are far from bizarre. Secondly, not all of the giving decisions would be made on April 15. Individuals could make cash gifts and pledges throughout the calendar year and have access to a great deal of information about where others' money was going by April 15.

In the third place, should there be some bizarre result, private sector remedies could deal with it. For example, it would be in the Salvation Army's self-interest to share with the underfunded agencies in order to maintain good relations with the giving public.

Finally, the problem — if it is a problem — would be of short duration. In making giving decisions the next year, people would remember the previous year's results and adjust their behavior accordingly. Over time, America would move to a fairly stable pattern of giving.

**13. What if no one allocated their tax dollar contributions to federal welfare programs?**

Under Proposal A, Congress would still allocate approximately two-thirds of the federal poverty budget. Under Proposal B, federal welfare programs would have no money and would have to be abolished. Clearly, there would be some adjustment problems in eliminating programs of such magnitude. That is why we propose phasing in the privatization of public charity over time.

**14. What about programs for the elderly, such as Social Security and Medicare?**

Social Security and Medicare are exempted under our proposals. However, means-tested poverty programs such as Supplemental Security Insurance would be included.

**15. Aren't you substituting "one dollar one vote" for "one person one vote" and won't this give the wealthy an unfair, disproportionate influence over where charitable dollars are spent?**

The criticism would be apt if we proposed to allow wealthy people to make decisions about how to spend *other* people's money. However, we are simply proposing to allow people to allocate their own money — in the charitable marketplace.

**16. Under your proposals, won't the total amount of public and private charitable giving go down?**

Not necessarily. We do anticipate that a great deal of wasteful, inefficient and counterproductive spending will be eliminated. Considered in isolation, this change would reduce the perceived need for charitable giving, which in turn might cause a reduction in the amount of "voluntary" giving and create political pressure to lower the amount of "required" giving. However, we also propose a system under which people would have complete control over their own giving decisions and thus a personal interest in how their dollars are spent.

As a result of the increased personal interest and control, the public might be willing to accept higher tax rates to fund charitable activities. Personal voluntary giving might increase as well.

**17. Technical question: How do we know that the tax dollar contributions will actually be distributed to the “right” charitable activities?**

We don’t. Economists have a theoretical way of describing “ideal” spending decisions: the last dollar spent on program A should create just as much social benefit as the last dollar spent on program B. One theoretical criticism of the current system is that it has no mechanism for reaching this ideal. Indeed, the current system is inherently destined not to reach the ideal. That is because, in the political arena, decisions are based on political costs and benefits (How many votes lost? How many votes gained?) rather than economic costs and benefits.

The proposal we are making also has a theoretical defect, however. When people make individual decisions, they will tend to allocate their tax dollar contributions so that the last dollar spent on program A will provide just as much personal (“psychic”) benefit as the last dollar spent on program B. Clearly, such psychic benefits cannot be equated with *social* benefits.

As a practical matter, the system we envision will be a great improvement over the current one, but it will not be perfect.

**18. If the system you propose is not perfect, how do we know that it will meet all important social goals?**

We don’t. Consider the following problem. Suppose that everyone in Dallas, Houston and San Antonio has some concern about poverty in rural Texas. For each individual, this concern is so small that he allocates all of his tax dollar contributions to charities in his home city. As a result, no city money flows to the rural areas. However, the small concerns of the millions of charities might add up to a major social concern.

No one knows how serious such a problem might turn out to be. Gradually moving to the new system would allow us to prevent such problems.

**19. If individual choice is superior to choices made by politicians, why not allow each taxpayer to allocate all of his tax dollars among all federal programs?**

That might be desirable. However, federal programs have different degrees of “publicness.” As with rural Texas poverty, individuals might tend to allocate all of their tax dollars to projects in their own communities, with nothing left over for truly national concerns such as defense.

Again, we cannot know what choices people would actually make until we begin to experiment.

**20. What about state and local government welfare programs?**

Our proposals apply only to federal income taxes. However, state governments could adopt similar programs — and taxpayers could allocate their federal tax dollar contributions to state and local government welfare programs if they chose to do so.

## Notes

<sup>1</sup> This study draws heavily on John C. Goodman and Michael Stroup, "Privatizing the Welfare State," National Center for Policy Analysis, NCPA Policy Report No. 123, June 1986.

<sup>2</sup> See, for example, Governor William Weld et al., "The Reform Agenda. Welfare: The Massachusetts Model," *The American Enterprise*, July-August 1994, pp. 12-19.

<sup>3</sup> Vee Burke, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1990-92*, CRS Report for Congress #93-832, EPW (Washington, DC: Library of Congress, Congressional Research Service, 1993).

<sup>4</sup> The \$305 billion spent in fiscal 1992 exceeded total defense spending for the year (\$292 billion) by \$13 billion.

<sup>5</sup> Calculated from Congressional Budget Office figures in Robert Rector, "Combating Family Disintegration, Crime and Dependence: Welfare Reform and Beyond," Heritage Backgrounder No. 983, April 8, 1994, p. 6.

<sup>6</sup> This calculation is based on a poverty population of 39.3 million people in 1993.

<sup>7</sup> Mean family income was \$31,022 in 1992. See Committee on Ways and Means, U.S. House of Representatives, *Overview of Entitlement Programs* (Washington, DC: U.S. Government Printing Office, 1994), Table H-16, p. 1182. [Hereinafter referred to as the 1994 *Green Book*.]

<sup>8</sup> 1994 *Green Book*, Table H-11, p. 1172.

<sup>9</sup> See also Robert Rector, "Facts About America's Poor," Heritage FYI, December 23, 1993, p. 4.

<sup>10</sup> *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, 1989).

<sup>11</sup> John C. Goodman, "Welfare and Poverty," National Center for Policy Analysis, NCPA Policy Report No. 107, October 1983, pp. 8-9.

<sup>12</sup> 1994 *Green Book*, Table 10-20, p. 388.

<sup>13</sup> Calculations by Robert Rector, Heritage Foundation. See *Issues '94: The Candidate's Briefing Book* (Washington, DC: Heritage Foundation, 1994), pp. 122-23.

<sup>14</sup> Robert Rector, Kate Walsh O'Beirne and Michael McLaughlin, "How 'Poor' Are America's Poor?" Heritage Backgrounder No. 791, September 21, 1990; and Robert Rector, "How the Poor Really Live: Lessons for Welfare Reform," Heritage Backgrounder No. 875, January 31, 1992, pp. 12-13.

<sup>15</sup> Bernard D. Karpinos, *Height and Weight of Military Youths* (Medical Statistics Division, Office of the Surgeon General, U.S. Department of the Army, 1960), pp. 336-51.

<sup>16</sup> Oscar Lewis, *The Children of Sanchez* (New York: Random House, 1961).

<sup>17</sup> Daniel P. Moynihan, *The Negro Family: The Case for National Action* (Washington, DC: U.S. Department of Labor, 1965).

<sup>18</sup> Martin Anderson, *Welfare* (Stanford, CA: Hoover Institute Press, 1978), ch. 2.

<sup>19</sup> George Gilder, *Visible Man: A True Story of Post-Racist America* (New York: Basic Books, 1978).

<sup>20</sup> George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981).

<sup>21</sup> Charles Murray, *Losing Ground* (New York: Basic Books, 1984). See also Charles Murray, "White Welfare, White Families, White Trash," in *National Review*, March 28, 1986, pp. 30-34.

<sup>22</sup> Ken Auletta, *The Urban Underclass* (New York: Random House, 1982). Auletta categorized his subjects as the passive poor, usually long-term welfare recipients; hostile street criminals who terrorized everyone; hustlers who earned their livelihood in the underground economy; and the traumatized mentally disabled, addicts and homeless street people.

<sup>23</sup> William J. Wilson, *The Truly Disadvantaged* (Chicago: University of Chicago Press, 1987).

<sup>24</sup> Michael B. Katz, *The "Underclass" Debate* (Princeton, NJ: Princeton University Press, 1993).

<sup>25</sup> U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 80, *Income in 1970 of Families and Persons in the*

*United States* (Washington, DC: U.S. Government Printing Office, 1971), p. 26.

<sup>26</sup> U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 170, *Money Income of Households, Families and Persons in the United States, 1991* (Washington, DC: U.S. Government Printing Office, 1992), p. 7.

<sup>27</sup> Douglas J. Besharov, "Escaping the Dole," American Enterprise Institute, *On the Issues*, No. 3, 1994.

<sup>28</sup> Ibid.

<sup>29</sup> Telephone interview with Dean Schott, Office of Communications, Office of Illinois Governor Jim Edgar.

<sup>30</sup> Stuart M. Butler and Robert Rector, "Health Care Debate Talking Points #10: The Mitchell Bill's Punitive Penalty on Work," Heritage F.Y.I., August 22, 1994, Table 1, p. 3.

<sup>31</sup> See Gary Robbins and Aldona Robbins, "Forecasting the Effects of the Mitchell Health Bill," National Center for Policy Analysis, NCPA Policy Report No. 186, September 1994.

<sup>32</sup> Lawrence M. Mead, *The New Politics of Poverty: The Nonworking Poor in America* (New York: Basic Books, 1992), pp. 115-17.

<sup>33</sup> Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants* (New York: City University of New York, Baruch College, 1990).

<sup>34</sup> Sheldon Danziger, Robert Haveman and Robert D. Plotnick, "How Income Transfer Programs Affect Work, Savings and Income Distribution: A Critical Review," *Journal of Economic Literature*, Vol. XIX (September 1981), p. 996.

<sup>35</sup> Robert Haveman, "How Much Have the Reagan Administration's Tax and Spending Policies Increased Work Effort?" in Charles R. Hulten and Isabell V. Sawhill, eds., *The Legacy of Reaganomics: Prospects for Long-Term Growth* (Washington, DC: Urban Institute Press, 1984). See also the analysis of this estimate in David Henderson, "Analyzing the Reagan Record," National Center for Policy Analysis, NCPA Policy Report No. 114, October 1984, pp. 9-12.

<sup>36</sup> SRI International, *Final Report of the Seattle-Denver Income Maintenance Experiment, Vol. I, Design and Results* (Washington, DC: U.S. Department of Health and Human Services, 1991); Gregory B. Christiansen and Walter E. Williams, "Welfare Family Cohesiveness and Out-of-Wedlock Births," in Joseph R. Peden and Fred K. Glahe, eds., *The American Family and the State* (San Francisco: Pacific Research Institute for Public Policy, 1986), p. 398.

<sup>37</sup> Summarized in Murray, *Losing Ground*, pp. 151-152. See also *Overview of the Seattle-Denver Income Maintenance Experiment, Final Report*, (Washington, DC: U.S. Department of Health and Human Services, 1983).

<sup>38</sup> Mary Jo Bane and David T. Ellwood, "The Dynamics of Dependence: The Routes to Self-Sufficiency," paper for the U.S. Department of Health and Human Services, National Center for Health Statistics (Births), 1984.

<sup>39</sup> Robert Moffitt, "Work and the U.S. Welfare System," Special Report 46, 1988, Institute for Research on Poverty, University of Wisconsin, Madison.

<sup>40</sup> See William J. Bennett, *The Index of Leading Cultural Indicators* (Washington, DC: Empower America, Heritage Foundation and Free Congress Foundation, 1993.)

<sup>41</sup> For a review of the literature, see Charles Murray, "Welfare and the Family: The U.S. Experience," *Journal of Labor Economics*, 1993, Vol. II, No. 1, pt. 2, pp. S240-42. See also Gary Becker, *A Treatise on the Family* (Boston: Harvard University Press, 1981), chs. 2 and 8; and Arleen Liebowitz, Marvin Eisen and Winston K. Chow, "An Economic Model of Teenage Pregnancy Decision-Making," *Demography*, Vol. 123, No. 1, 1986, pp. 67-77.

<sup>42</sup> C.R. Winegarden, "AFDC and Illegitimacy Ratios: A Vector Autoregressive Model," *Applied Economics*, March 1988, pp. 1589-1601.

<sup>43</sup> Shelly Lundberg and Robert D. Plotnick, "Adolescent Premarital Childbearing: Do Opportunity Costs Matter?" June 1990, paper presented at the May 1990 Population Association of America Conference in Toronto, Canada.

<sup>44</sup> Hill and O'Neill, *Underclass Behavior in the United States*.

<sup>45</sup> Robert Hutchens, "Welfare, Remarriage and Marital Search," *American Economic Review*, June 1989, pp. 369-379.

<sup>46</sup> Mikhail S. Bernstam, "Malthus and the Evolution of the Welfare State: An Essay on the Second Invisible Hand, Parts I & II," Working Paper E-88-41, 42, Hoover Institution, 1988.

<sup>47</sup> Murray, "Welfare and the Family" p. S259.

<sup>48</sup> Bennett, *The Index of Leading Cultural Indicators*.

<sup>49</sup> Murray, "Welfare and the Family," p. S245.

<sup>50</sup> See Stephen J. Bahr, "The Effects of Welfare on Marital Stability and Remarriage," *Journal of Marriage and the Family*, Vol. 41 (August 1979), pp. 553-60; and Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, March 1992, Vol. XXX, pp. 1-61.

<sup>51</sup> Murray, *Losing Ground*, pp. 151-52.

<sup>52</sup> *An Evaluation of the 1981 AFDC Changes: Initial Analysis*, General Accounting Office, April 2, 1984.

<sup>53</sup> Karl Zinsmeister, "Growing Up Scared," *The Atlantic*, June 1990, p. 53.

<sup>54</sup> Bennett, *The Index of Leading Cultural Indicators*, p. 6.

<sup>55</sup> Zinsmeister, "Growing Up Scared," p. 52.

<sup>56</sup> Ibid.

<sup>57</sup> Bennett, *The Index of Leading Cultural Indicators*, p. 5.

<sup>58</sup> David T. Ellwood, *Targeting 'Would Be' Long-Term Recipients of AFDC* (Washington, DC: U.S. Department of Health and Human Services, 1986), p. 5.

<sup>59</sup> David T. Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988).

<sup>60</sup> Ibid.

<sup>61</sup> Irwin Garfinkel and Sara S. McLanahan, *Single Mothers and Their Children: A New American Dilemma* (Washington, DC: Urban Institute Press, 1988), p. 31.

<sup>62</sup> Nicholas Davidson, "Life Without Fathers," Heritage Foundation, *Policy Review*, Winter 1990, pp. 41-42; Zinsmeister, "Growing Up Scared."

<sup>63</sup> Zinsmeister, "Growing Up Scared"; Rector, "How to Strengthen America's Crumbling Families," Heritage Backgrounder No. 894, April 28, 1992.

<sup>64</sup> Davidson, "Life Without Fathers," p. 43; Rector, "How To Strengthen America's Crumbling Families"; and William P. Barr, "Crime, Poverty and the Family," Heritage Lecture No. 401, July 29, 1992.

<sup>65</sup> Davidson, "Life Without Fathers," p. 42.

<sup>66</sup> Ibid, p. 41; Bennett, *The Index of Leading Cultural Indicators*, p. 12.

<sup>67</sup> Ibid.

<sup>68</sup> Rector, "How to Strengthen America's Crumbling Families," p. 18; Garfinkel and McLanahan, *Single Mothers and Their Children*, p. 31.

<sup>69</sup> Douglas Smith and G. Roger Jarjoura, "Social Structure and Criminal Victimization," *Journal of Research in Crime and Delinquency*, Vol. 25, February 1988, pp. 27-52.

<sup>70</sup> Robert J. Sampson, "Urban Black Violence: The Effect of Male Joblessness and Family Disruption," *American Journal of Sociology*, Vol. 93 (1987), pp. 348-82.

<sup>71</sup> Bennett, *The Index of Leading Cultural Indicators*.

<sup>72</sup> Arthur B. Elsters, "Judicial Involvement and Conduct Problems of Fathers of Infants Born to Adolescent Mothers," *Pediatrics*, Vol. 79, No. 2 (1987), pp. 230-34.

<sup>73</sup> Davidson, "Life Without Fathers," p. 42; Zinsmeister, "Growing Up Scared," p. 52; and Barr, "Crime, Poverty and the Family," p. 6.

<sup>74</sup> Allen J. Beck and Susan A. Kline, "Survey of Youth in Custody, 1987," U.S. Department of Justice, Bureau of Justice Statistics, *Spending Report*, September 1988. See also Zinsmeister, "Growing Up Scared," citing Bureau of Justice Statistics figures, and Rector, "How to Strengthen America's Crumbling Families."

<sup>75</sup> Davidson, "Life Without Fathers."

<sup>76</sup> Ibid.; Zinsmeister, "Growing Up Scared," citing Bureau of Justice Statistics figures.

<sup>77</sup> Smith and Jarjoura, "Social Structure and Criminal Victimization."

<sup>78</sup> Michael Harrington, *The New American Poverty* (New York: Basic Books, 1984); Sar A. Levitan and Clifford M. Johnson, *Beyond the Safety Net: Reviving the Promise of Opportunity in America* (Cambridge, MA: Ballinger Press, 1984); John E. Schwartz, *America's Hidden Success: A Reassessment of Twenty Years of Public Policy* (New York: Norton, 1983).

<sup>79</sup> Charles Murray, *Losing Ground*; George Gilder, *Wealth and Poverty*; Warren T. Brookes, *The Economy in Mind* (New York: Universe Books, 1982), ch. 7.

<sup>80</sup> Quoted in Maurice Bruce, *The Coming of the Welfare State* (London: B.T. Batsford, 1961), p. 41.

<sup>81</sup> Quoted in Bentley B. Gilbert, *The Evolution of National Insurance in Great Britain: The Origins of the Welfare State* (London: Michael Joseph, 1966) pp. 51-52.

<sup>82</sup> Charles Murray, "Welfare Promoting Poverty or Progress?" *Wall Street Journal*, May 15, 1985.

<sup>83</sup> Mary Jo Bane and David T. Ellwood, *Welfare Realities: From Rhetoric to Reform* (Cambridge, MA: Harvard University Press, 1994), p. 30-36.

<sup>84</sup> Ibid., p. 31.

<sup>85</sup> Ibid., p. 39.

<sup>86</sup> Ibid., p. 49.

<sup>87</sup> Ibid., p. 29.

<sup>88</sup> This section is based on *An Evaluation of the 1981 AFDC Changes: Initial Analysis*.

<sup>89</sup> *Giving USA.: 1992 Annual Report*, AAFCR Trust for Philanthropy, Inc., 1993, p. 10.

<sup>90</sup> Taken from a 1983 Gallup Poll.

<sup>91</sup> *Giving USA*, p. 51.

<sup>92</sup> Ibid.

<sup>93</sup> Counts total spending on means-tested programs.

<sup>94</sup> U.S. Department of Health and Human Services, *Helping the Homeless: A Resource Guide*, 1984, p. 115.

<sup>95</sup> Interviews with Dallas Salvation Army social services program administrators and directors.

<sup>96</sup> Bureau of the Census, *Characteristics of Households and Persons Receiving Selected Noncash Benefits, 1983* (Washington, DC: U.S. Department of Commerce, 1985), Series P-60, No. 148, pp. 1-5 and p. 103.

<sup>97</sup> S. Anna Kondratas, "A Strategy for Helping America's Homeless" (Washington, DC: Heritage Foundation, 1985), p. 10.

<sup>98</sup> See Robert Woodson, "The Importance of Neighborhood Organizations in Meeting Human Needs," in Jack A. Meyer, ed., *Meeting Human Needs: Toward a New Public Philosophy* (Washington, DC: American Enterprise Institute, 1984), p. 136.

<sup>99</sup> Ibid.

<sup>100</sup> Lawrence M. Mead, *Beyond Entitlement* (New York: The Free Press, 1986).

<sup>101</sup> Ibid., pp. 122, 125. For a summary of welfare programs in the 1980s, see S. Anna Kondratas, *The Political Economy of Work-For-Welfare* (Washington, DC: American Legislative Exchange Council, 1986). Kondratas gives these programs a mixed review and concludes that many of the favorable claims made about certain welfare programs, including that of Massachusetts, cannot be verified.

<sup>102</sup> See Goodman and Stroup, "Privatizing the Welfare State."

<sup>103</sup> Vee Burke, *Cash and Noncash Benefits for Persons With Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1982-84*, CRS Report for Congress #85-194 EPW (Washington, DC: Library of Congress, Congressional Research Service, 1985), p. 52; and Murray, "Welfare and the Family," p. S232.

<sup>104</sup> Dallas Salvation Army interviews. Reported in Goodman and Stroup, "Privatizing the Welfare State."

<sup>105</sup> Interviews with Texas Department of Human Services administrators and Dallas Salvation Army personnel. Reported in Goodman and Stroup, "Privatizing the Welfare State."

<sup>106</sup> Martin Rein and Lee Rainwater, "Patterns of Welfare Use," *Social Service Review*, No. 52, pp. 511-34, cited in Greg Duncan, *Years of Poverty, Years of Plenty* (Ann Arbor, MI: Institute for Social Research, 1984), p. 78.

<sup>107</sup> Dallas Salvation Army interviews. Reported in Goodman and Stroup, "Privatizing the Welfare State."

<sup>108</sup> Ibid.

<sup>109</sup> See examples in Goodman and Stroup, "Privatizing the Welfare State."

<sup>110</sup> Robert Woodson, "Child Welfare Policy," in *Meeting Human Needs*, pp. 455-65.

<sup>111</sup> Sean Sullivan, "Youth Employment," in *Meeting Human Needs*, pp. 215-57.

<sup>112</sup> V. Ruth McKinnon, Patricia W. Samors and Sean Sullivan, "Business Initiatives in the Private Sector," in *Meeting Human Needs*, pp. 53-91.

<sup>113</sup> "The Grass Is Greener in Public Housing: From Tenant to Resident to Homeowner," a report submitted to the U.S. Department of Housing and Urban Development by the National Center for Neighborhood Enterprise, October 1984.

<sup>114</sup> McKinnon, Samors and Sullivan, "Business Initiatives in the Private Sector," in *Meeting Human Needs*, pp. 53-91.

<sup>115</sup> Andrea M. Haines, V. Ruth McKinnon and Patricia W. Samors, "Social Service Programs in the Public and Private Sectors," in *Meeting Human Needs*, pp. 421-54.

<sup>116</sup> Ibid.

<sup>117</sup> A proposal similar to the one made in this study was made independently by Donald Sammis and Joseph Piccione. See Joseph Piccione, *The Human Services Option: New Funding for the Charitable Sector* (Washington, DC: The Free Congress Research and Education Foundation, 1982). Alan Reynolds, now of the Hudson Institute, made a similar proposal independently in a *National Review* article in 1978, "Competition in Welfare."

<sup>118</sup> *Giving USA*., p. 10.

## About the Authors

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