Executive Summary

Last year, the Clinton Administration offered (but failed to pass) its welfare reform plan. The new Republican Congress has countered with a proposal that stresses limitations on the receipt of welfare benefits and the transferring of control over welfare programs from the Federal to the state level. Our analysis of the details of the proposals suggests that *the Clinton program probably would worsen the existing welfare system, while the Republican proposals would improve it.*

Any welfare reform must take a hard line against autopilot spending increases, the entrenched Federal bureaucracy, and teen-age illegitimacy.

As legislative conferees work out their differences on a welfare reform bill to send to the President, they should emboldened by a comparison of the details of their plan with the President's:

Total Expenditures

The Clinton proposal, after all the additional programs are factored in, represents business as usual, and perhaps even an acceleration in spending. The Republicans propose a reduction in the growth rate of spending through block grants to the states capped for five years at 1994 levels.

Work Requirements

The Clinton proposal is more federal programs for education, job training, and employment placement services, reminiscent of past programs that have failed. The Republican plan frees states to find ways to meet mandated percentages of beneficiaries enrolled in work activity.

Teen-Age Illegitimacy

The Clinton proposal threatens a loss of benefits to mothers who refuse to attend job training programs. The potential for fraud here is immense. The Republican proposal simply denies cash AFDC payments to teen-agers, although it maintains food stamps and Medicaid benefits.

The Entitlement Mentality

The Republican proposal caps block grants at 1994 levels of spending, denying entitlement status to these programs. The Clinton proposal does nothing in this respect.

The Republican proposal addresses these problems head-on, while the Clinton plan takes a pass.

Perverse Additional Incentives

The Clinton proposal links government subsidized jobs to participation in the welfare system, which will *encourage people to pass through the welfare system* en route to a job. There are no additional disincentives in the Republican proposals.

Shifting Power to the States

The Republican strategy schedules many programs for block granting, though there is a tendency to attach too many conditions to the block grants. The Clinton suggestions are merely more Federal programs administered from Washington.

Summary

The Devil, they say, is in the details. When these welfare reform proposals are scrutinized, it is clear that the Republican proposal represents a change from the status quo and a move in the right direction, while the Clinton proposal is more of the same.

Any welfare reform must take a hard line against autopilot spending increases, the entrenched Federal bureaucracy, and teen-age illegitimacy. The Republican proposal addresses these problems head-on, while the Clinton plan takes a pass.

RECASTING THE SAFETY NET:
An Evaluation of Proposals for Welfare Reform

Introduction

Welfare reform has become a dominant issue in American political life. This is ironic, because welfare reform has been an enduring theme of American politics almost since the system began. Virtually every President since (and including) Johnson has acknowledged the need for welfare reform, and most have claimed to have done it (box below).

The American people intended welfare to be a safety net—a series of programs designed to reduce poverty, and to support those who for a variety of reasons are simply unable to support themselves and their families. Unfortunately, the evidence suggests that the welfare system has become less of a safety net and more of a lifestyle choice.

As a means of reducing or eliminating poverty, welfare has been an abject failure:

- The federal government alone spends more than $240 billion on welfare annually, which is more than twice the amount needed to raise every welfare recipient above the poverty level.[1]
- Including state and local efforts, total government spending on welfare for 1995 will be at least $355 billion, or almost a billion dollars a day.[2] Welfare now absorbs 5 percent of GNP, up from 1.5 percent in 1965.[3]
- Since 1965, the federal government has spent over $4.9 trillion on welfare programs. Meanwhile, the poverty rate has gradually risen.[4]

30 Years of Presidential Welfare Reform Rhetoric

"Our American answer to poverty is not to make the poor more secure in their poverty but to reach down and to help them lift themselves out of the ruts of poverty and move . . . along the high road of hope and prosperity. The days of the dole in our country are numbered."

-President Lyndon B. Johnson

"The present welfare system has failed us—it has fostered family breakup, has provided very little help in many States and has even deepened dependency by all-too-often making it more attractive to go on welfare then to go to work . . . . I propose a new approach that will make it more attractive to go to work than to go on welfare."

-President Richard M. Nixon

"Shortly after I became President, I announced that a comprehensive reform of the Nation's welfare system would be one of our first priorities . . . . I would like to point out that the most important conclusion is that the present welfare system should be scrapped entirely and a totally new system should be implemented."

-President Jimmy Carter

"I am pleased to sign into law today a major reform of our nation's welfare system . . . reform that will lead to lasting emancipation from welfare dependency."

-President Ronald Reagan

"We must revolutionize our welfare system. It doesn't work. It defies our values as a nation. If we value work, we can't justify a system that makes welfare more attractive than work . . . If we value families, we can't perpetuate a system that actually penalizes those who stay together."

-President Bill Clinton

An unintended consequence of the welfare system has been to aggravate poverty by undermining families. By discouraging marriage and work, the welfare system has encouraged the development of female-headed households.

- Today, about 3 of 10 children live outside the traditional family arrangement, double the proportion of a generation ago.[5]
- Since 1970, an average of 44 percent of female-headed families have been poor versus six to eight percent of married couples.[6]
- The median income of married couple families in 1993 was $43,005, some 2.47 times as high as that of female-headed households ($17,443).[7]
- Nearly 45 percent of female-headed households have incomes under $15,000, compared with barely 10 percent of married-couple families.[8]

As a result, the welfare system perpetuates itself by creating dependency:

- Children raised in families that receive welfare are themselves three times more likely than other children to be on welfare when they become adults.[9]
- Today nearly one out of ten Americans collects Food Stamps, and one of every seven children is enrolled in AFDC. About half of them will remain on welfare for over ten years.[10]

This is why welfare reform is again being discussed today. The American public's anecdotal aggravation at the welfare system is supported by the overwhelming weight of statistical evidence.

Children raised in families that receive welfare are themselves three times more likely than other children to be on welfare when they become adults.

The Current Legislative Situation

Late last year, the Clinton Administration offered a plan for welfare reform that placed a heavy emphasis on providing additional programs that would, it was argued, move people off the welfare rolls and into work activity. That proposal was not acted upon prior to the conclusion of the 103rd Congress.

Instead, the new Republican Congress has proposed a welfare reform package that stresses to a greater extent limitations on the receipt of welfare benefits and the transferring of control over welfare programs from the Federal to the individual state level through "block grants." [That is the suggested legislation that is now being debated in the Congress.] Such a plan passed the House, and is being debated in the Senate as this report goes to press.

The surge of interest in welfare reform is the result of widespread public belief that there are major shortcomings in the existing system. Specifically, there is discontent with the magnitude of welfare programs, i. e., the burden they place on taxpayers, abuses of the system in the form of able-bodied individuals who refuse to work, and what the public sees as taxpayer subsidy of undesirable behavior. We have described many of these problems in earlier studies for the Institute of Policy Innovation.[11]

This study is an evaluation of the merits of these two broad approaches to the problem of welfare reform. However, it is first necessary to provide a background review of the behavioral consequences associated with the providing of welfare benefits, as well as a discussion of some of the institutional characteristics that are a part of the welfare system. In this analysis, we will attempt to spell out what we think are the necessary ingredients of a welfare reform program that will deal with the major deficiencies of the current system.

*Today . . .
one of every seven children is enrolled in AFDC. About half of them will remain on welfare for over ten years.*

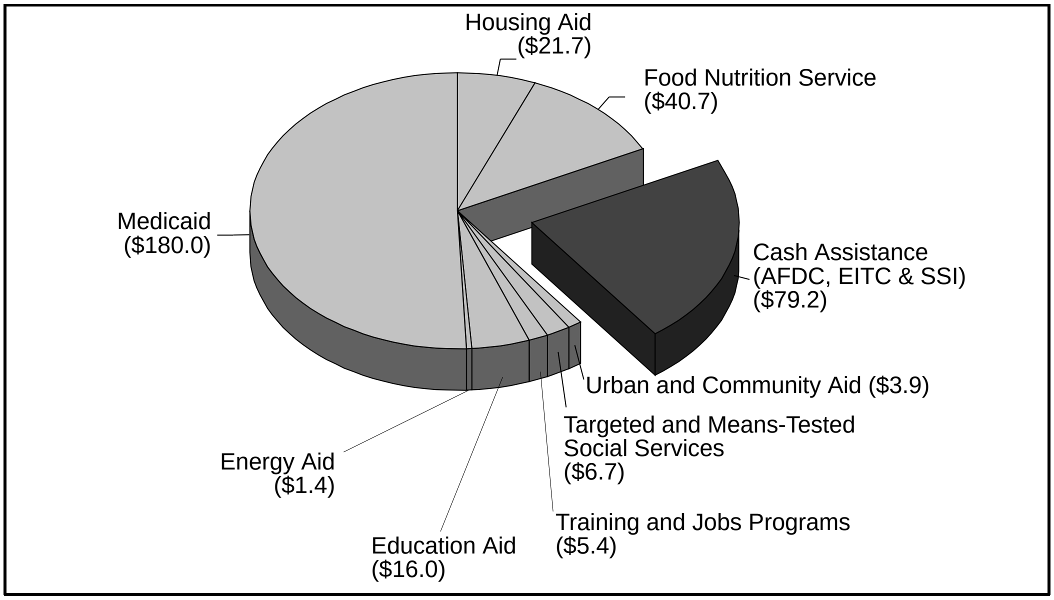
The Behavioral Consequences of Welfare

Any successful welfare reform program must take into account the behavioral consequences associated with the receipt of income transfer payments. By definition, income transfers involve a shifting of income (either money or in-kind) from one part of the economy to another, with no exchange of a good or service being involved. As an official category in the national income accounts, money income transfers alone will account for about a trillion dollars in 1995.[12] Not all of this amount represents welfare payments in the strict sense. In fact, less than ten percent of the money income flows identified as transfers are of the welfare variety.[13] However, cash welfare payments make up only 22 percent of all welfare expenditures,[14] leaving some 275 billion dollars in non-cash forms of welfare payments, such as food stamps, Medicaid, school lunches, and public housing,

Figure 1

Projected 1995 Government Welfare Spending ($ billions)

Source: The $355 billion total government welfare spending projected for FY '95 was compiled using sources reflecting 1995 government projections for Medicaid, Cash Assistance (AFDC, EITC, SSI), Food Nutrition Service and Housing Assistance. All other categories are based on 1992 actual expenditures calculated by the Heritage Foundation using Census Bureau data. Because these figures are dated, total welfare spending for 1995 will most likely be higher than $355 billion.



Work vs. Welfare Among the Poor

There are a number of reasons for being poor in the United States. Perhaps the most obvious one is not being able to find a job that provides an income sufficient to raise one above the government's official poverty threshold. There are three possibilities here:

- First, individuals may be willing to work but are unable to find any job at all, that is they are unemployed in every sense of the word.
- Second, there are situations where persons hold part-time jobs that do not provide sufficient income to raise them above the poverty threshold, but would prefer a full-time job.
- Finally, there are those cases where people hold truly full-time jobs but at a wage rate that is inadequate to raise them above the poverty standard.

In all of these instances, a person should be treated as being poor because of a **lack of economic opportunity**. Data from the Current Population Survey permit us to determine how many poor people aged 16 and over fall into these categories. Based on their reports of their work activity and the reasons they give for not working or working less than full-time, it is estimated that about 20.7 percent of those officially classified as poor can be thought of as lacking economic opportunity.[37]

The majority of the poor aged 16 and over either are not working or are working part-time for reasons other than a lack of economic opportunity. The reasons they give for their labor force status include home or family reasons, retirement, or school or other activity. Using the same data source as before, it is estimated that 64.4 percent of the working age poor are in the poverty condition because of what may be thought of as basic life-style choices. This form of poverty is not related to the effectiveness of among others. All told, the total volume of welfare benefits, both cash and non-cash, is estimated at $355 billion for fiscal 1995, almost a billion dollars a day.

The presence of such substantial amounts of income transfers in the economy has a substantial effect on people's labor force decisions. *Income transfers provide sources of income that are an alternative to that earned by engaging in work activity.* The more attractive that alternative becomes, the less likely people are to either attempt, or actually engage in, work. As welfare payments are made more and more attractive, the population of low-income people is offered greater incentives to abandon work. At current levels of welfare benefits, it is estimated that about three out of every four able-bodied working age poor have made a behavioral choice that takes them out of the labor market.[15] [box below]

At current levels of welfare benefits, it is estimated that about three out of every four able-bodied working age poor have made a behavioral choice that takes them out of the labor market.

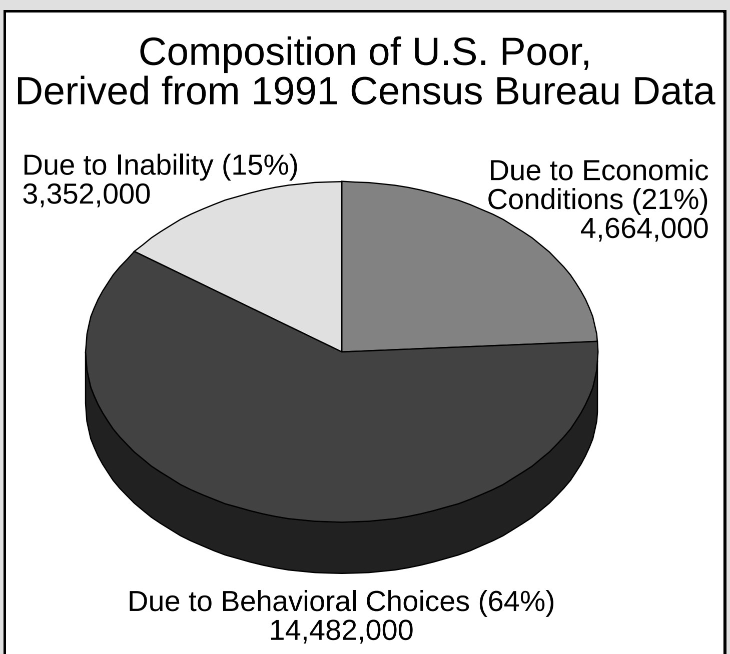
That decisions such as these will be made by poor people is confirmed by a series of somewhat controlled experiments conducted by the United States Department of Labor. Known as the SIME-DIME experiments (Seattle-Denver Income Maintenance Experiments), they reveal that *an additional dollar of cash income transfers has the effect of reducing labor market earnings by eighty cents.*[16] By itself, this seems to suggest that money income transfers of the welfare variety have a net money income enhancing effect and, thus, should have a poverty-reducing effect. However, this does not mean that the entire welfare system has such an impact. Over three-fourths of welfare benefits are of the non-cash variety, and since only money income counts toward defining poverty status, the disincentive effects associated with the cash equivalent of the non-cash form of welfare benefits lead to welfare, in total, reducing the money earnings of the poor by more than the amount of income cash transfers.

These elements of the welfare-poverty problem provide insight into one of the great paradoxes of post-World War II American life, the inability to reduce the official poverty rate through income redistribution programs by various levels of government. The 1993 estimate of the poverty rate is 15.2 percent, **higher** than the poverty rate over a quarter century earlier,[17] in the very early years of the War on Poverty portion of Lyndon Johnson's Great Society. At that time, the rhetoric of the poverty issue was clear and explicit, as stated by President Johnson, "America's answer to poverty is not to make the poor more secure in their poverty but to reach

the economy in providing economic opportunity. It is better thought of as representing "behavioral" poverty.

Finally, another 14.9 percent of the poor aged 16 and over give reasons for other than full-time work levels that indicate either a short-term health or long-term disability problem. Not working for these reasons is clearly not related to the availability of economic opportunities, nor does it reflect the kind of voluntary choice suggested by the notion of "behavioral" poverty. For lack of a better term, it may be thought of as poverty due to inability, poverty that is in a sense peripheral to the other forms of poverty that have been described.

Ignoring poverty due to inability, the ratio of behavioral poverty to that resulting from lack of economic opportunity is slightly greater than three-to-one, indicating that three-fourths of the able-bodied working-age poor are in the poverty condition largely due to their own behavioral choices.



down and to help them lift themselves out of the ruts of poverty and move ... along the high road of hope and posterity."[18] Noble intentions, to be sure. Yet after an additional $3.5 trillion in spending directed at the problem, and six Presidents later, the rhetoric is basically the same, "If we value work, we can't justify a system that makes welfare more attractive than work."[19]

Through the years we have created an income transfer system that makes welfare an occupational choice that many people regard as legitimate.

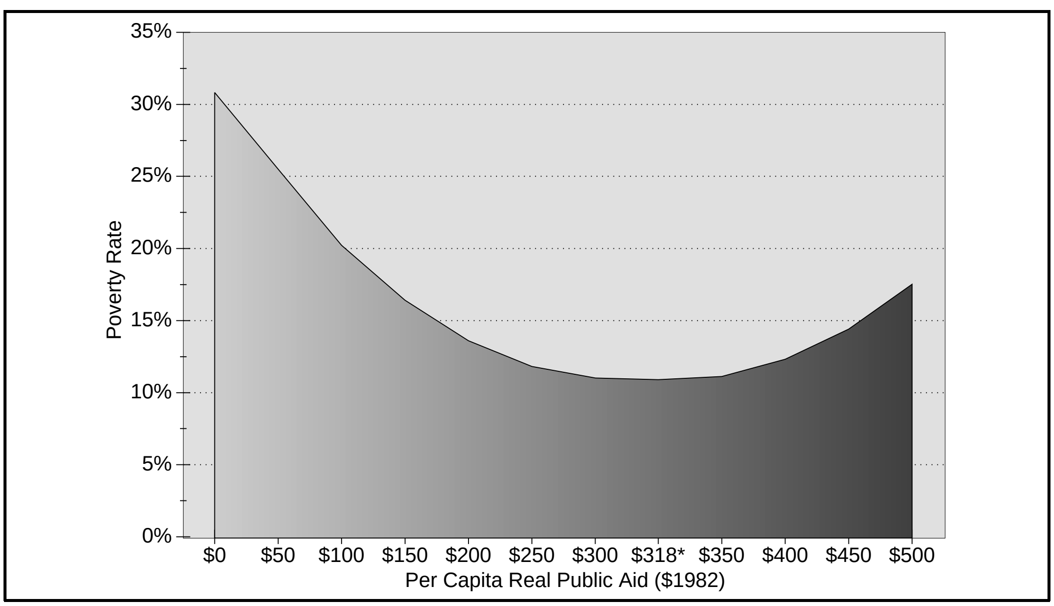
That last statement, by President Clinton, captures the essence of the welfare problem in the United States. Through the years we have created an income transfer system that makes welfare an occupational choice that many people regard as legitimate. In the process, we have changed what initially was a problem that could have been successfully solved through the stimulating of general economic growth into one that has divorced the poor from the very economic system that has the most to offer those at the bottom of the income distribution. Poverty has been transformed in the last quarter century from being a rather straightforward economic issue into a problem that has much more deep-seated and structural roots.

That this was happening was identified over a decade ago. Charles Murray's book, **Losing Ground**, published in 1984, made such an argument quite explicitly,[20] challenging the widely held position that increases in the volume of income transfers would reduce the official poverty rate.[21] Since then, the evidence that this is the case has become overwhelming. Whether the pertinent data are observations for the entire United States covering a long span of time, information relating to variations in poverty and welfare spending in different geographic areas, such as the individual states, or a tracking of individual economic status through time, the picture that emerges is the same. *Greater amounts of welfare benefits are associated with declines in wage-earning activity*, either because of a reduction in labor force participation or more selective patterns of job search by non-working low-income individuals.[22]

The best that can be said for the notion that income transfers are an effective way to reduce measured poverty is that this approach only works up to a certain level of income transfers. Beyond some critical level of transfers, they become counterproductive from the standpoint of providing reductions in the poverty rate. Unfortunately, that critical point was reached rather early in the game, sometime in the early 1970s. For almost a quarter of a century, expansions of the level of welfare benefits have had the effect of causing people to alter their economic behavior in a way which produces increases in the official poverty rate. This is demonstrated by a relationship we developed in the mid-1980s, the Poverty-Welfare Curve.[23] Appendix A provides a current updating of that analysis.

Figure 2

The Poverty-Welfare Curve



**Turning Point*

At the point in time when the crucial level of welfare spending was reached, it stood at about two percent of Gross Domestic Product. That is less than forty percent of the current level of spending. This indicates that *at least sixty percent of present welfare spending, or more than $210 billion, serves primarily to insure that the official poverty rate remains higher than it should be.* It is simply superfluous from the standpoint of reducing poverty. Ironically, the very persistence of substantial poverty rates that is insured by high levels of welfare benefits then becomes the primary argument for even further expansions of the welfare system.

. . . at least sixty percent of present welfare spending, or more than $210 billion . . . is simply superfluous from the standpoint of reducing poverty.

There is other evidence that confirms the notion that the availability of income transfers through the welfare system does not facilitate the movement of people out of the poverty condition. The data describe movements into and out of poverty for people who are and are not recipients of benefits from major income transfer programs. The programs in question are Aid to Families with Dependent Children (AFDC), general assistance, food stamps, Medicaid, public or other subsidized housing, and Supplemental Security Income (SSI).[24]

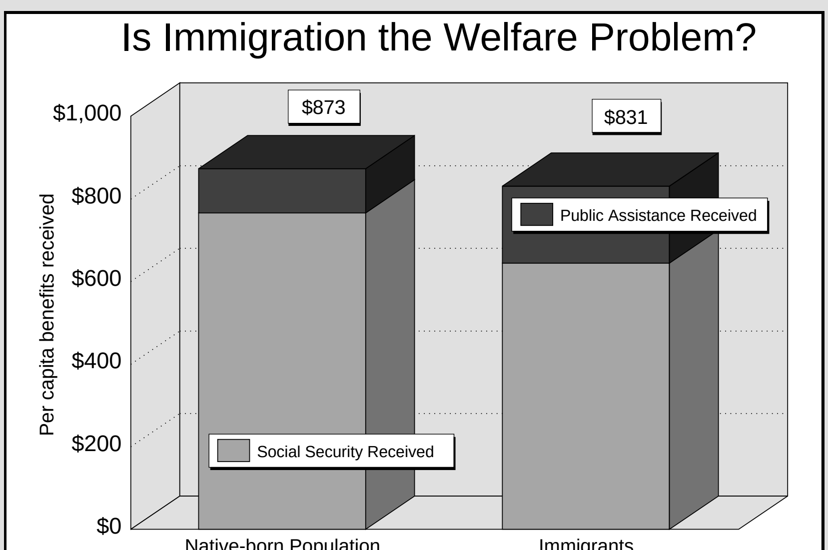
Among those poor people who did not receive benefits from these programs, almost half (45 percent) moved from poverty to non-poverty status in a single year. In contrast, among the poor who did participate in these programs, less than one-fifth (18 percent) moved from the poverty to the non-poverty condition.[25] Put in the simplest of terms, *the rate of movement out of poverty was* ***two-and-one-half times larger*** *for those who did not receive benefits under these programs than it was for those who did.* Clearly, any notion that assistance programs work to ease the transition from poverty to non-poverty status seems unwarranted.

IMMIGRANTS ARE NOT THE PROBLEM

Some simple statistics indicate that the presence of immigrants in American society is not a serious contributor to the burden of transfer payments. Data from the 1990 Decennial Census tell us much about the per immigrant societal burden created by two large sources of transfer income, public assistance and social security benefits.[41] On a per capita basis, immigrants received $186 a year in public assistance payments and $645 a year in Social Security payments. This aggregates to $831. Contrast this with the native-born population figures of $107 in public assistance and $766 in Social Security benefits, a total of $783. Not only do immigrants claim fewer income transfers but they generate more income per capita than the native-born population, $15,033 versus $14,367, a difference of $666.

Even more intriguing are the data for non-citizens, the target of the Republican ban on benefits to immigrants. They claim $187 a year per person in public assistance payments but only $245 a year in Social Security monies. The total transfer payment burden of non-citizens is less than half that of native-born Americans.

One final word on immigrants. Much has been said about the differences between more recent and earlier immigrants.[42] The Census data distinguish between immigrants who came to the United States since 1980 and those who arrived earlier. For non-citizens who immigrated since 1980, the transfer payment burden is $279 a year, $159 in public assistance payments and $120 of Social Security benefits. For non-citizens who arrived in 1980 or earlier, the burden is $695. $236 of this is public assistance and $459 is Social Security. More recent non-citizen immigrants impose significantly smaller transfer payment burdens than earlier arrivals.



The Institutional Background of the Welfare System

While the behavioral aspects of the welfare problem impose substantial limitations for public policy makers, even more important issues are raised by the basic philosophical conflicts inherent in the task of providing income transfers to the poor. At the root of things are two contradictory impulses that motivate both the citizenry at large and its political leaders.

Tendency to Compassion

On the one hand, there is the instinct to be compassionate, to provide a helping hand to those who are the less fortunate among us. This is a powerful force in American life, one that is susceptible to almost cynical misuse and manipulation, especially by some political leaders, by lobbyists for various interest groups, and by the bureaucracy that staffs and operates the welfare system.

People are moved by the spectacle of economic distress, particularly among women and children. Yet, at the same time, they are also deeply disturbed when they observe what they believe to be major abuses within the system of public charity that has emerged in post-World War II America. It rankles them to see in their midst a class of people who have become professional "freeloaders," users and exploiters of the public's generosity. Invoking the terminology of an earlier time, the public finds itself torn between the compassionate urge to assist the "deserving" poor and resentment at being taking advantage of by the "undeserving" poor.[26]

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On the other hand, at the level of those who formulate and administer public policy in the welfare arena, the contradiction between compassion and resentment has been turned on its ear. In an effort to build what are known as "political coalitions," they have used the welfare system to appeal to particular constituencies. In the process, they have painted those who question further expansion of the welfare system as purveyors of greed and selfishness. By doing so, they have put themselves in the position of being unable to themselves question the welfare system, for they do not wish to run the risk of being attacked by a political challenger on the very grounds they have used to attack others. They have no desire to be depicted as cold and unfeeling, or even cruel.

Beyond that, legislators long ago discovered that there are very few obstacles to their indulging their compassion through legislation. The historic lack of fiscal discipline in the Federal government has made it possible for legislators simply to walk away from the inherent conflict implicit in the welfare system. As long as the voting public did not punish legislators' fiscal excesses, it was easy to deal with the problem of the size of the welfare system by abandoning control over it. This was done by defining benefits as an "entitlement," a benefit available to anyone who satisfies certain eligibility standards. This cedes responsibility for welfare spending to the bureaucrats who administer the system. In effect, it puts the welfare system on autopilot and treats welfare spending as if it were non-discretionary.

What about the bureaucrats who administer the welfare system? Their interests lie in expanding and perpetuating the system. These are the apparatchiks who dot the i's and cross the t's in the system. Their jobs depend on the existence of a "welfare" population, preferably a growing one. Their bias is toward encouraging the compassionate instinct in American society, toward facilitating the further expansion of that which they direct.

This combination of negligent legislators and self-serving bureaucrats has proven to be unwilling to distinguish between the deserving and non-deserving poor for the purposes of a national welfare program. To understand why this is so, just consider the difficulties inherent in government's deciding who should and who should not be on the receiving end of welfare. When a legislative or administrative body writes a set of eligibility standards for the receipt of benefits dispensed through a government program, the result is a set of rules that tend to be uniform in character and uniformly applied. The very nature of the notions of due process and equal treatment before the law almost demand that this be the case. Thus, a government body's notion of what

Poor vs. Non-Poor Recipients of Benefits

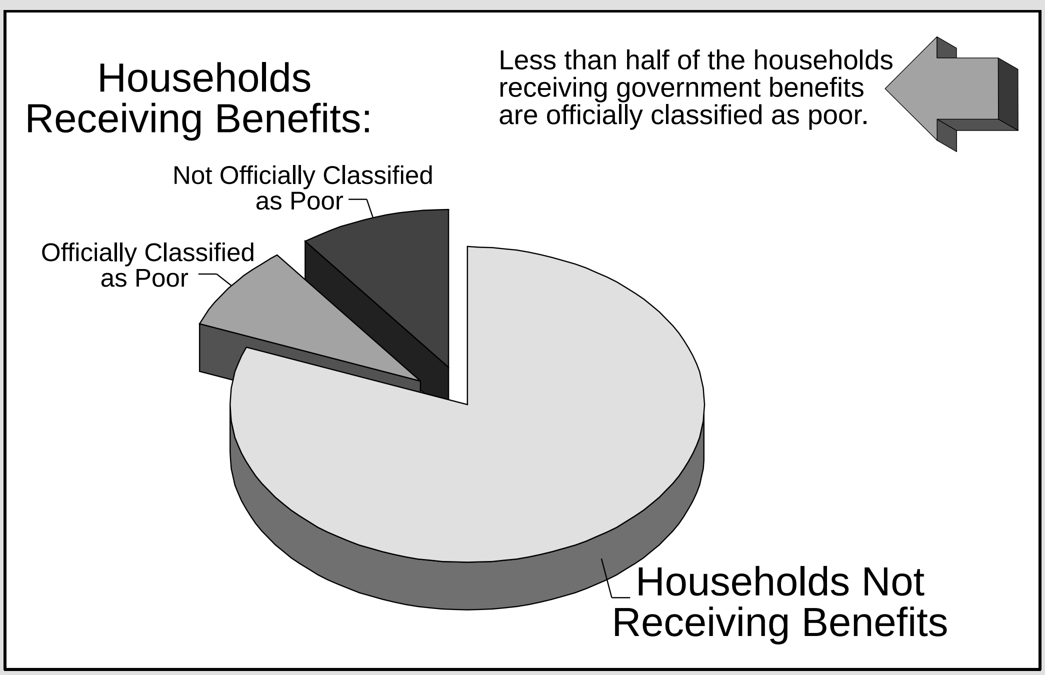
Some simple evidence indicates the magnitude of the problem associated with uniform rules, uniformly applied. In 1992, 18.4 million households (out of 96.4 million) were receiving at least one means-tested, non-cash government benefit.[38] However, less than one-half (46 percent) of these households were officially classified as being poor. The net had been spread so wide that it was delivering benefits to more than one non-poor person for every poor recipient. Specifically, in 1992, there were 1.16 non-poor households for every poor household enrolled in means-tested, non-cash benefit programs.

Even so, only 63 percent of all poor households were receiving at least one means-tested, non-cash benefit. Those other 37 percent represent the basis for arguing for even further expansions of welfare programs. Imagine, though, how many non-poor households would be brought under the tent if all the poor were reached by program benefits.

In the realm of cash public assistance,[39] the story is better in one respect, but far worse in another. The good news is that there are fewer non-poor households receiving cash benefits per household than is the case with non-cash. All told, 61 percent of the households receiving cash public assistance are poor. This means that there are only 0.64 non-poor households per poor household obtaining cash public assistance. However, the bad news is that only 37 percent of all poor households receive such payments.

Viewed from a broader perspective, the good news is not so good and the bad news is even worse. In 1989, the ratio of non-poor to poor households receiving cash public assistance was only 0.61. For means tested, non-cash benefits, the non-poor to poor recipient ratio was only 1.14 in 1989.

More devastating is what has been happening at the margin. Between 1989 and 1992, for every additional poor household receiving means-tested, non-cash benefits, 1.16 non-poor households were added to the welfare rolls. In the case of cash public assistance, every additional poor household receiving such benefits was accompanied by another 1.02 non-poor households. Very clearly, the cost of providing just poor households with welfare benefits is only a part of the story. In addition, there is the cost of benefits for the non-poor households that will join the welfare system as it is expanded in an effort to reach more and more of the poor. That additional cost is substantial and rising.



constitutes a "deserving" group of people gives way to the far more sterile notion of uniform eligibility. Inevitably, the end result is the inclusion in the set of those eligible for benefits of a good many people who are not perceived by the general public as being among the "deserving" poor.

The basic problem is that the deserving poor are not a homogeneous set of people. They take many forms, with many characteristics. Consequently, any set of eligibility rules that attempts to include within its scope the totality of the deserving population must also bring under the tent a wide assortment of either the undeserving poor or even the non-poor. And, in the absence of meaningful fiscal constraint, the size of the tent can be made larger and larger. As the tent expands, the number of the undeserving poor and non-poor receiving program benefits grows proportionately larger.

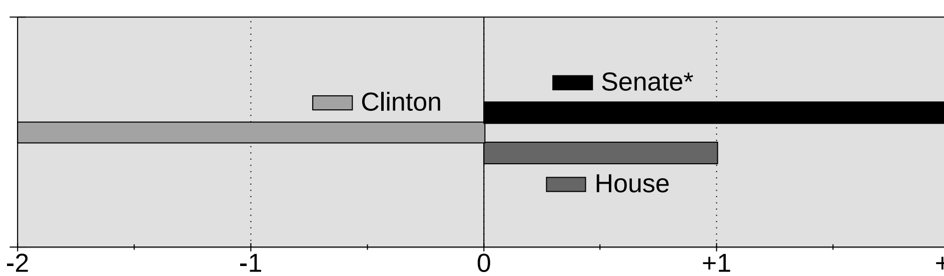
Assessing the Proposals

On the basis of the previous discussion, we will now evaluate the alternative approaches to welfare reform. Our guiding principle will be that less welfare is preferred to more, especially at the Federal level. The rationale for this is simple. The available evidence overwhelmingly supports the notion that much of the growth in the welfare system since the 1960s has been counterproductive, leading to more, not less, poverty and an increase in the incidence of various social pathologies. For purposes of quantifying our assessments, we will use a scale that ranges from -2 to +2, where a plus indicates we feel it is an improvement in the welfare system. Ten different aspects of the welfare proposals will be rated.

Total Expenditures on Welfare

What are the impacts of the alternative welfare proposals on the total level of public spending on welfare? The Republican approach suggests a degree of reduction in the rate of growth in spending.[27] This is accomplished by block granting funds to the states for various functions and **capping the spending at 1994 levels for five years**. Savings from this approach to AFDC, various child welfare programs, and child care activities are estimated at $15.2 billion for five years, about three billion dollars a year. By contrast, the Clinton proposal, after all the additional programs are factored into the equation, suggests business as usual, at best, and perhaps even an acceleration in spending. Business as usual will not yield real welfare reform. Consequently, the Clinton proposal is given a -2 on this element of welfare reform. While the Republican reform proposals indicate movement in the right direction, the spending constraints are relatively minor at this point. Thus, it receives only a +1 rating.

Total Expenditures on Welfare

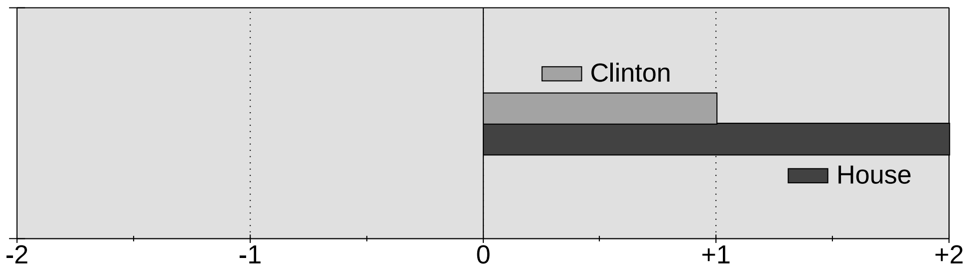


As this publication goes to press, welfare reform is being debated in the United States Senate. The Republican bill is authored by Senator Robert Dole. The specifics of that bill are in flux, but certain features appear likely to survive, namely, spending reductions (estimated at $70 billion over five years), a five-year limit on benefits, exemptions from that limit amounting to no more than 15 percent of all welfare beneficiaries, some constraints on receipt of benefits by unwed teen-age mothers, child-care subsidies to welfare mothers required to work, partial block-granting to states, and no benefits to non-citizens. Consistent with our stated criteria, we assign the following scores to these aspects of the Senate bill, and they are reflected in the charts where appropriate: +2, +1, -1, +1, -2, +1, and -2.

Program Coverage

There are significant differences between the Clinton and Republican approaches as to who is covered by changes in the welfare system. Both move in an appropriate way by adding constraints on the receipt of welfare, but the Republican proposal has an advantage from the coverage standpoint. In the Clinton program, any new limitations on the receipt of welfare benefits apply only to parents born after 1971. In the Republican proposal, everyone is impacted. Consequently, the Clinton plan receives a rating of +1 and the Republican initiative a +2.

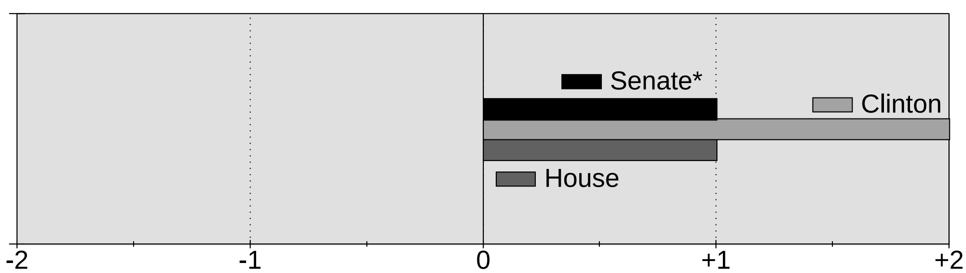
Program Coverage



Time Limits on Welfare Benefits

Both proposals include specific lifetime limits on the receipt of welfare benefits, two years under the Clinton program and five years under the Republican legislation. Clearly, **if enforced**, a two year limit is preferred to one of five years. However, in both cases, there are questions about the effectiveness of enforcement. These will be considered in rating other aspects of the proposals. Evaluated simply on the basis of the stringency of the time limits, the Clinton program receives a +2 rating and the Republican a +1.

Time Limits on Welfare Benefits



TIME ON WELFARE

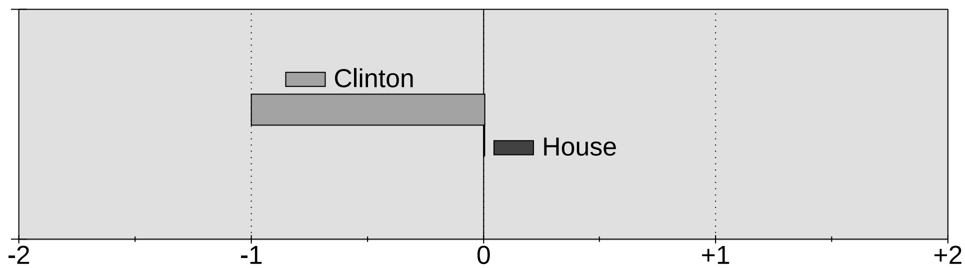
Placing some constraint on the length of time that welfare benefits can be received is a critical element of any approach to welfare reform. We estimate that the typical length of time that AFDC recipients receive benefits is 6.88 years.[40] However, for those whose welfare experience began before age 22, it is significantly longer at 8.23 years. Among this very young group, 32.8 percent received AFDC for 10 or more years.

The greatest longevity on AFDC is found among single women (i. e., not divorced, separated, or widowed). For them, the average duration of AFDC is 9.33 years and almost forty percent receive AFDC for 10 years or more. For this group, welfare in the form of AFDC is nearly an occupational choice.

Work Requirements

Both sets of proposals include provisions designed to encourage the substitution of work activity for the receipt of welfare benefits. In the Clinton proposal, the approach is that of more federal programs. The emphasis is to be on providing benefit recipients with education, job training, and employment placement services. This is reminiscent of a number of past programs of the same ilk that have failed.[28] Therefore, the Clinton work requirement policies receive an evaluation of -1. The Republican approach works through mandating the states to have certain percentages of their welfare caseload enrolled in work programs by predetermined dates, such as 20 percent in the year 2003. To a certain extent, the same criticisms may be directed at state work programs as at Federal ones. Yet, because of the diversity of program designs at the state level, greater efficiency might be expected in these programs. Give the Republican proposal neither a plus nor a minus on this issue.

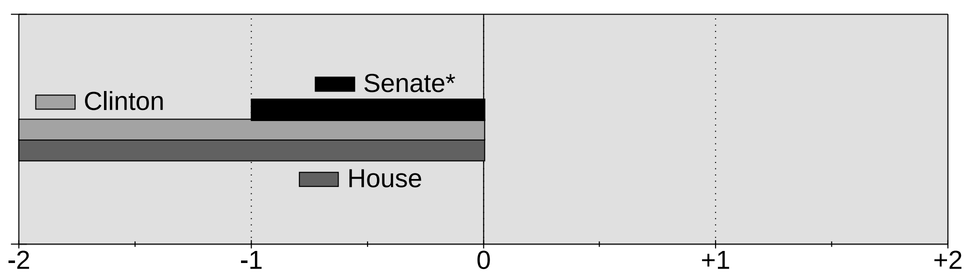
Work Requirements



Fail-Safe Provisions

Neither set of proposals is able totally to face up to the basic dilemma of welfare. Both succumb to the "compassion trap" by providing escape hatches or fail-safe mechanisms that ultimately enable people to escape the discipline of the lifetime limits on the receipt of welfare benefits. In the Clinton program, the way out is through subsidized private sector or community service jobs paying at least the minimum wage, plus benefits. This is simply a way of laundering the payment of welfare benefits through what would largely be fictitious jobs. This receives a -2 rating. The Republican fail-safe mechanism is an exception to the five-year limit on receiving welfare benefits based on evidence of **extreme financial hardship**. Defining what is meant by extreme financial hardship takes us back into the mares nest of the welfare system. This, too, merits a -2 rating.

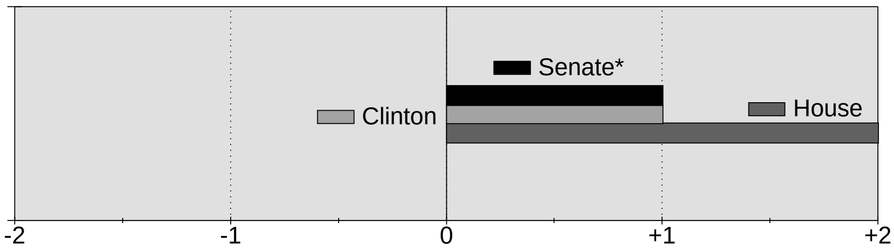
Fail-Safe Provisions



Teen-age Illegitimacy

Perhaps the most compelling dimension of the welfare dilemma is its contribution to teen-age illegitimate births. Therefore, it is not surprising that both sets of proposals confront this issue. The Clinton agenda does it softly by threatening a loss of benefits to teen-age mothers who refuse to stay in school, look for work, or attend job training programs. The potential for fraud in satisfying these requirements is immense. Nevertheless, it is a step in the appropriate direction and merits a +1 rating. The Republican proposal simply denies cash AFDC payments to teen-agers, although it maintains food stamps and Medicaid benefits. On the basis of recent evidence pertaining to the sensitivity of teen-age behavior to the denial of cash benefits, this seems to be a stronger provision than that in the Clinton plan. Accordingly, it is assigned a rating of +2.

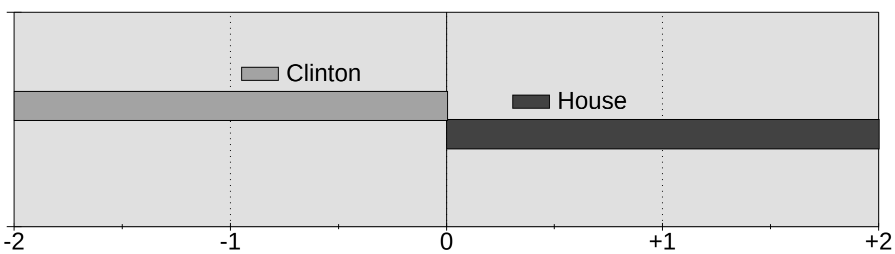
Teen-age Illegitimacy



Treatment of Entitlements

The notion of an entitlement has been a driving force behind growth in welfare spending. Unless some action is taken to limit the use of the concept of an entitlement, the welfare system probably cannot be reined in to any great extent. The Clinton proposals do nothing in this respect. This is a case where failure to act is a powerful negative. We assign a -2 to the Clinton approach on this score. On the other hand, the Republican proposals to cap block grants to the states at 1994 levels of spending denies entitlement status to these programs. This is progress and merits a rating of +2.

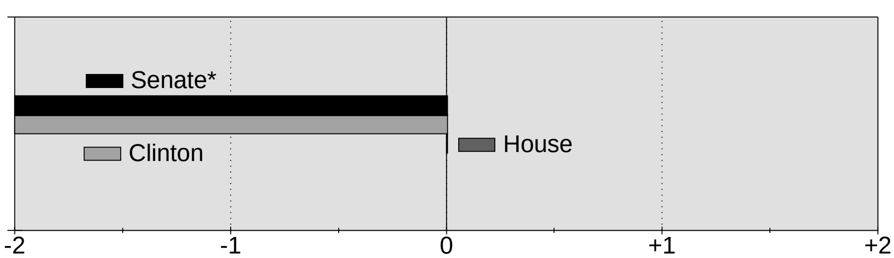
Treatment of Entitlements



Additional Incentives

Often, in the design of new public policy programs, unintended incentives to behave perversely are created. The Clinton proposals are a classic case of this. In particular, linking access to government subsidized private sector and community service jobs to participation in the welfare system offers an additional encouragement to people to pass through the welfare system en route to a job. This, alone, is justification for assigning a -2 rating to the Clinton proposals in this category. On the other hand, we see no additional disincentives inherent in the Republican proposals. Generally, there are no special rewards for a failure to do mischief. Therefore we assign a zero rating to the Republican proposals on this point.

Additional Incentives

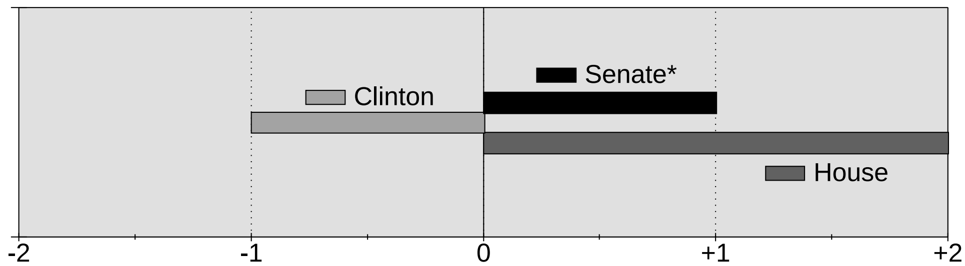


Shifting Power to the States

Under the Republican strategy, many programs are scheduled for block granting. This is a distinct advantage. The individual states can serve as laboratories of experimentation in initiating welfare reform. Any innovations that are successful can then be imitated by other states. More important, the individual states, other than Vermont and Wyoming, must operate within a framework of stricter fiscal discipline than the Federal government in that they must balance their budgets. There still is a somewhat worrisome tendency for the Republican proposals to attach too many conditions to the block grants, such as setting required percentages of welfare recipients who must be enrolled in work programs by certain dates. The freer states are to explore new initiatives the better. However, the principle of decentralizing control over the welfare system is of such importance that we must assign a value of +2 to the Republican proposals for their boldness in moving in this direction.

The Clinton suggestions are merely more of the same, a collection of Federal programs administered from Washington. This has not worked in the past and is not likely to be productive in the future. However, the Clinton administration has shown itself to be receptive to the notion of waivers permitting states to deviate from the "one-size-fits-all" approach. We give the Clinton programs only a -1.

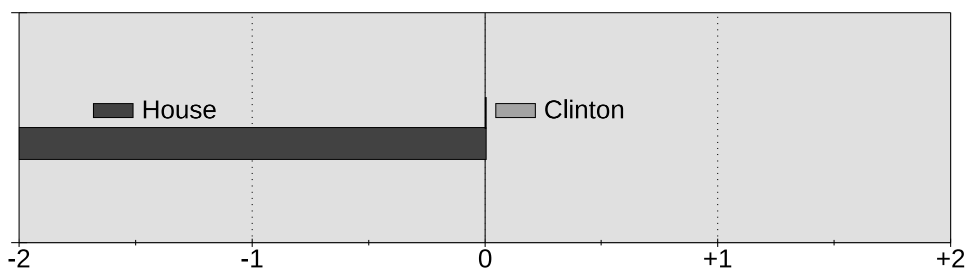
Shifting Power to the State



Other Aspects of the Reform Proposals

There is a disquieting dimension to the Republican proposals. They would impose a blanket denial of benefits under 41 different programs on non-citizens of the United States. No distinction is made between legal and illegal immigrants. The clear implication seems to be that welfare benefits provided to non-citizens, who make up about sixty percent of all immigrants, are a major source of the burden borne by citizens. This is simply not the case. Immigrants are not the problem. The failure to make a distinction between legal and illegal immigrants is inexcusable. Assign a -2 to the Republicans on this count.

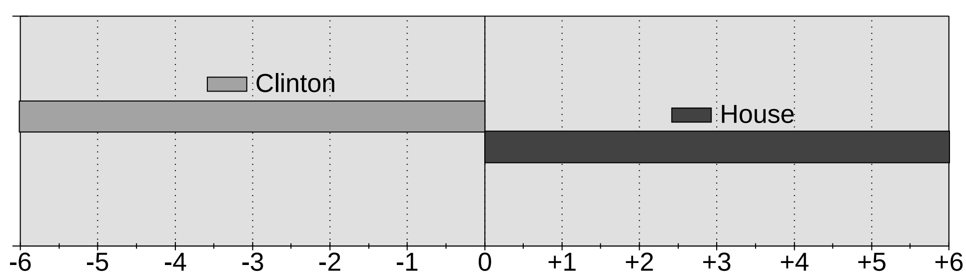
Other Aspects of the Reform Proposals



Summary

What is the cumulative verdict on the alternative proposals to reform the welfare system? The Republican proposals fare better, receiving an aggregate rating of +6 on the ten categories. This is not spectacular, but it is markedly better than that of the Clinton proposals. Their cumulative rating is a -6, suggesting that they probably would worsen the existing welfare system while the Republican proposals would improve it.

Summary: Total Scores



Conclusion

Reforming the welfare system is perhaps the central problem in American society. Popular discontent with the status quo is probably at an all-time high. People in general wish to be caring and compassionate, but, at the same time, they are appalled by the abuses and inefficiencies they see in the welfare system. However, that has been the norm, historically. Much of the rhetoric of today is the same as that of thirty-or-so years ago.[29] What is different now is the intensity of the opposition to welfare. In a sense, we are at a crossroads. The public demand for welfare reform is very possibly irresistible. Something will be done. The only question is, "Will it make things better or worse?" The analysis presented here suggests that the Clinton proposals lead us in the direction of making things worse. On the other hand, the Republican agenda, while far from ideal, would appear to move the system in the right direction.

The analysis presented here suggests that the Clinton proposals lead us in the direction of making things worse.

The Welfare-Abortion Link

How would reductions in welfare benefits affect the number of abortions in America? The issue is whether reducing levels of welfare benefits would increase the number of pregnancies that would be terminated through abortion. The linkage between welfare and abortion is a complex one. On the one hand, there is strong evidence that welfare increases the incidence of pregnancies among unmarried women. Some of these pregnancies are carried to term, and others are terminated through abortion. Thus, higher welfare benefits have the potential to increase both the number of live births among unmarried women and the number of pregnancies that are aborted.

A simple statistical analysis (using data from the individual states and the District of Columbia) indicates that this is the case. Holding welfare benefits (as measured by the average monthly level of AFDC payments) constant, every birth to an unmarried woman is associated with an additional 1.5 abortions. In addition, holding births to unmarried women constant, every added dollar of AFDC payments per month is associated with a further 0.6 abortions per 1,000 live births.

While these are only statistical associations, they do suggest that the concern expressed by some that reducing the level of welfare benefits available to welfare mothers would increase the incidence of abortion in American is unfounded. In fact, the statistical evidence suggests just the opposite; namely, that the additional pregnancies generated by rising welfare benefits are more, not less likely, to be terminated through abortion.

The relationship between welfare and abortion is illustrated even more dramatically by the data in the accompanying table. In the ten states with the highest number of abortions per 1,000 live births and the District of Columbia (which ranks number one in abortions) the average monthly AFDC payment in 1992 was $452. In the next ten highest states in terms of abortions per 1,000 live births, AFDC benefits averaged $373 per month. In the third ten, average monthly AFDC benefits fall to $327. For the fourth ten, they are $309 and, for the bottom ten, $288. The rank order correlation between abortions per 1,000 live births and average monthly AFDC benefits across these five groups of political jurisdictions is perfect.

States ranked by Abortions per 1,000 live births	Abortions per 1,000 live births in 1992	Monthly AFDC benefits in 1992
Top 11 States (including D.C.)	575	$ 452
Second 10 States	385	373
Third 10 States	292	327
Fourth 10 States	218	309
Bottom 10 States	137	288

Appendix A: The Poverty-Welfare Curve Revisited

If public assistance programs designed to alleviate poverty induced absolutely no behavioral responses among the affected population, those programs would reduce the official poverty rate since money income transfers to the poor would in some cases raise their money income above the defined poverty level. This might be called the income effect of poverty programs.

Yet, there are three types of behavioral changes that might result from welfare programs that could actually raise the poverty rate. Since these behavioral modifications involve substituting economically less productive forms of behavior for more productive ones, they may be called **substitution effects**.

Work Disincentive Effects

The first adverse impact has already been discussed, namely work disincentive effects. A welfare recipient who takes a job loses welfare benefits. The loss of welfare income is often 80 or 90 cents, or even a dollar, for each dollar of incremental work income earned. We could speak of the marginal work tax imposed by welfare as being 80, 90, or even 100 percent. Such high rates of marginal taxation inevitably discourage work effort, since the welfare recipient gains little or no added income from taking a job.

Family Compositional Effects

The welfare system rewards non-traditional forms of family relationships, with some forms of payments (e. g., Aid to Families with Dependent Children) ordinarily being tied to the absence of a spouse in the home. There is a plethora of literature suggesting that welfare leads to more single-parent families.[30] Incomes in such families are dramatically lower than in households where two adults are present.[31] Children in particular lose economically by being in living units where there are fewer adults generating income.

Other Negative Behavioral Attributes

There is evidence that welfare also promotes other behaviors that tend to reduce incomes. June O’Neill, the newly designated director of the Congressional Budget Office, working with Anne Hill, has found a strong correlation between welfare payments and illegitimacy, a finding echoed by many other scholars.[32] Childbearing reduces the capacity of young women to hold employment. Welfare also probably impedes school performance, and thus the acquisition of skills.[33] By providing income without a performance criteria or the need to demonstrate responsible behavior, welfare dulls the human motivation, or what psychologists term "n-achievement."[34]

The Poverty-Welfare Curve

The income effect of public assistance programs suggests welfare will reduce poverty. The substitution effects mentioned above work in the direction of reducing incomes and increasing poverty among welfare recipients. Which is the stronger: the income or substitution effects?

It is possible that **both** effects might, on occasion, dominate. When public assistance is moderate, the negative substitution effects associated with welfare might be extremely small, while the money income that welfare provides might push some individuals above the poverty line. On balance, public assistance could reduce poverty. On the other hand, when public assistance becomes large, the negative substitution effects might be extremely large, so large as to more than offset the poverty reducing income effects. On balance, in that situation welfare could be poverty-increasing.

This hypothesis can be represented by what we have previously termed the Poverty-Welfare Curve.[35] It is pictorially represented in Figure 3. When welfare spending is low, increases in such spending reduce poverty. After a point, however, welfare spending actually leads to increased poverty as the substitution effects overwhelm the income effect.

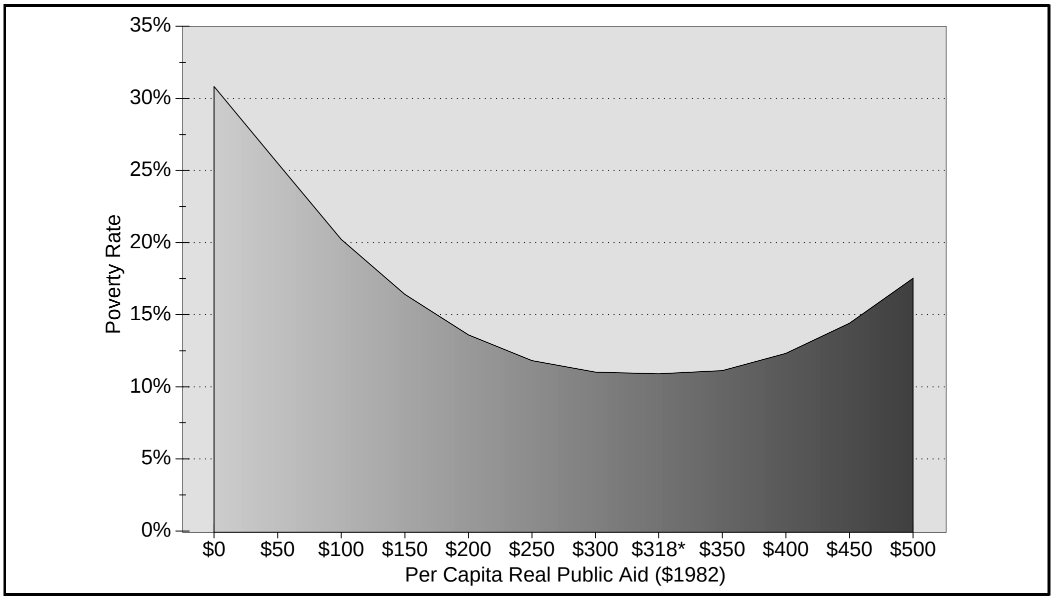


Figure 3

The Poverty Welfare Curve

**Turning Point*

We gathered information on the poverty rate, real public aid per capita, and two control variables (unemployment and real gross domestic product per capita) for the 40 year period 1953 to 1992.[36] Using a quadratic regression model, we statistically fitted the data to ascertain whether a curve similar to Figure 3 exists. The evidence shows:

- The poverty-welfare curve is confirmed, with generally robust statistical results;
- The poverty rate in 1992 of 14.2 percent was exactly the same as 25 years earlier (1967), but real per capita welfare (public aid) spending had **more than quadrupled**;
- Poverty in 1992 was nearly 30 percent higher (as measured by the poverty rate) than it was in 1973, while per capita public aid spending had doubled, **despite rising overall income levels**; cutting public aid to 1973 levels would save taxpayers over $90 billion while drastically reducing poverty.
- In the early 1990s, rapid increases in federal spending were observed along with rising poverty rates, even after the end of the 1990-91 recession.

It is interesting to split the 40 year period 1953-1992 into two equal parts. Welfare spending during the first half rose, but at its peak, in 1972, was less than one-half of its level (in real per capita terms) two decades later. During this 1953-1972 era, poverty rates fell by more than one-half, to almost 11 percent. The poverty-welfare curve hypothesized in Figure 3 was not observed to exist in any statistically significant sense because welfare spending was relatively low, except perhaps at the very end of the period. Statistically, we observed that economic growth (rising real per capita output or income) was effective in reducing poverty.

By contrast, in the 1973-1992 period, real per capita public assistance spending more than doubled - but poverty rates rose over the period, going from near 11 to over 14 percent. After controlling for other factors (e. g., unemployment), there is statistical evidence supporting the existence of the poverty-welfare curve. Interestingly, however, poverty reduction does not seem to be associated with economic growth; indeed, in a perverse fashion, poverty rates were higher in high output (income) years. This is consistent with the view that a largely non-working poverty population had become welfare dependent and isolated from the economic progress that creates increased opportunities in the world of work.

To conclude, the welfare-associated pathologies that reduce work effort, destroy traditional families, and otherwise lead to economically destructive behavior seem to dominate the effects of welfare on today's citizenry, meaning that increasing public assistance programs will lead to more, not less, poverty. Conversely, a slimmed down, restructured welfare system should lead to great savings for the taxpayer - and less poverty.

Endnotes

1. Robert Rector, "Why Expanding Welfare Will Not Help the Poor," Heritage Foundation, The Heritage Lectures, #450. Taken from testimony before Congress on April 28, 1993.

2. The $355 billion total government welfare spending projected for FY 1995 was compiled using the sources below, reflecting 1995 government projections for Medicaid, Cash Assistance (AFDC, EITC, SSI), Food Nutrition Service and Housing Assistance. All other categories are based on 1992 actual expenditures calculated by the Heritage Foundation using Census Bureau data. Because these figures are dated, total welfare spending for 1995 will most likely be higher than $355 billion. Committee on Ways and Means, "Overview of Entitlement Programs, 1994" *Green Book*, July 15, 1994; CBO, "Projections of National Health Expenditures: 1993 Update," Table A-11, October 1993; Robert Rector, "Combatting Family Disintegration, Crime and Dependence: Welfare Reform and Beyond," Heritage Foundation, April 8, 1994; *Budget of the U.S. Government, Fiscal Year 1995*, Executive Office of the President, OMB, February 1994.

3. Robert Rector, "Combatting Family Disintegration, Crime, and Dependence: Welfare Reform and Beyond," Heritage Backgrounder No. 983, April 8, 1994.

4. Rector, "Combatting Family Disintegration . . . ," *ibid.*

5. *Ibid.*

6. The House Wednesday Group, "Moving Ahead: Expanding Opportunity in America," October, 1991; Jan Larson, "Dad's a Deadbeat," *American Demographics*, July 1992.

7. U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-60, No. 184, *Money Income of Households, Families and Persons in the United States: 1992*, p. 40.

8. *Ibid.*

9. M. Anne Hill and June O'Neill, "Underclass behaviors in the United States: Measurement and Analysis of Determinants," U.S. Department of Health and Human Services.

10. U.S. House of Representatives, Committee on Ways and Means, *1993 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: U.S. Government Printing Office, 1993), p. 688. Cited by Rector, "Combatting . . . "

11. Richard Vedder and Lowell Gallaway, *The War Against the Poor* (Lewisville, Texas: Institute for Policy Innovation, 1992), Policy Report No. 117, and Richard Vedder and Lowell Gallaway, *The Cost of Waiting for Welfare Reform: A Billion Dollars A Day Doesn't Keep Poverty Away* (Lewisville, Texas: Institute for Policy Innovation, 1994), Policy Report No. 127.

12. Preliminary 1994 national income account estimates of transfer payments to persons are $963.7 billion. See *Economic Report of the President* (Washington, D.C.: United States Government Printing Office, 1995), Table B-26, p. 305.

13. Estimates reported in *The Cost of Waiting for Welfare Reform* ..., op.cit., p. 7, show $79.2 billion in cash assistance for 1995.

14. *Ibid*. The other categories of welfare spending and spending totals (in $billions) are Medicaid (180.0), housing aid (21.7), food and nutrition (40.7), urban and community aid (3.9), targeted and means-tested social services (6.7), training and jobs programs (5.4), education aid (16.0), and energy aid (1.4).

15. *Ibid*., p. 10. Among the able-bodied poor, it is estimated that (for 1991) 14,482,000 made behavioral choices that took them out of the labor market while only 4,664,000 could be considered to be in the labor market but with insufficient economic opportunity to move them out of the poverty category.

16. See Alicia Munnell, *Lessons from the Income Maintenance Experiments* (Boston: Federal Reserve Bank of Boston and the Brookings Institute, 1987)

17. The official poverty rates in 1965 and 1966 were 17.3 and 14.6 percent, respectively.

18. See *The Cost of Waiting for Welfare Reform* ..., op. cit., p. 4.

19. *Ibid*.

20. Charles Murray, *Losing Ground* (New York: Basic Books, 1984).

21. Representative examples of the conventional view at that time are Peter Gottschalk, "The Successes and Limitations of the War on Poverty and the Great Society Programs," and Robert Greenstein, "Testimony," in War on Poverty - Victory or Defeat? Hearing before the Subcommittee on Monetary and Fiscal Policy, Joint Economic Committee, Congress of the United States, 99th Congress, First Session, June 20, 1985 (Washington, D.C.: United States Government Printing Office, 1986), pp. 698-84 and 91-105, respectively.

22. See Robert Moffitt, "Incentive Effects of the U. S. Welfare System: A Review," *Journal of Economic Literature*, March 1992, pp. 1-61.

23. See Lowell Gallaway, Richard Vedder, and Therese Foster, "The New Structural Poverty: A Quantitative Analysis," and Lowell Gallaway and Richard Vedder, "Suffer the Little Children: The True Casualties of the War on Poverty," in *War on Poverty - Victory or Defeat?*, op. cit., pp. 8-47 and 48-68, respectively. Further elaboration of the concept may be found in Lowell Gallaway and Richard Vedder, "Poverty, Income Distribution, the Family and Public Policy," Subcommittee on Trade, Productivity, and Economic Growth, Joint Economic Committee, Congress of the United States (Washington, D.C.: United States Government Printing Office, 1986).

24. U. S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-70, No. 24, Transitions in Income and Poverty Status, 1987- 88 (Washington, D.C.: United States Government Printing Office, 1991).

25. *Ibid*.

26. For interesting discussions of these notions, see Marvin N. Olasky, *The Tragedy of American Compassion* (Washington, D.C.: Regnery Gateway, 1992) and "Beyond the Stingy Welfare State," *Policy Review*, Fall 1990.

27. The description of the character of the Republican welfare reform proposals is taken from material released by the House Republican Conference. Of course, the vagaries of the legislative process may alter the final product.

28. See *The Cost of Waiting for Welfare Reform*, op. cit., p. 23.

29. See *The Cost of Waiting for Welfare Reform* ..., op. cit., p. 4. for examples.

30. See Moffitt,Incentive Effects of the Welfare System ..., op. cit.

31. In 1992, the median family income of married-couple households was $42,140, compared with $18,587 for female-headed households where the father was absent. See the U. S. Bureau of the Census, *Current Population Reports*, Series P-60-184 (Washington, D. C.: Government Printing Office, 1993) for details.

32. See Hill and O'Neill, "Underclass Behaviors in the United States: Measurement and Analysis of Determinants," U. S. Department of Health and Human Services; C. R. Winegarden, "AFDC and Illegitimacy Ratios: A Vector Autoregressive Model," *Applied Economics*, March 1988; and Robert Plotnick, "Welfare and Out-of-Wedlock Childbearing: Evidence from the 1980s," *Journal of Marriage and the Family*, August 1990.

33. See Luther M. Boggs, Jr., Richard Vedder, and Alfred E. Eckes, *Testing and Educational Achievement: Ohio and the Nation* (Athens, Ohio: Ohio University, Contemporary History Institute, 1986) for a review of the literature.

34. David McClelland, *The Achieving Society* (Princeton, N.J.: D. Van Nostrand, 1961).

35. See our *Poverty, Income Distribution,* op. cit, especially chapters 5-7, "AFDC and the Laffer Principle," Wall Street Journal, March 26, 1986, and *The War on the Poor*, op. cit.

36. For a more detailed discussion of data sources, see our *The War on the Poor* op. cit.; This analysis essentially replicates our earlier research.

37. *The Cost of Waiting for Welfare Reform*, p. 10.

38. Data in this section are from U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States* (Washington, DC: United States Government Printing Office, various dates).

39. Cash public assistance largely consists of AFDC, Supplemental Security Income, Earned Income Tax Credit, and general assistance payments.

40. Data used in this calculation and throughout this section are from David T. Ellwood, *Targeting Would-Be Long-Term Recipients of AFDC: Who Should Be Served?* (Princeton, NJ: Mathematica Policy Research, 1986).

41. U.S. Department of Commerce, Bureau of the Census, *1990 Census of Population, Ancestry of the Population of the United States* (Washington, DC: United States Government Printing Office, 1993).

42. Donald Huddle, *The Net National Costs of Immigration in 1993* (Washington, DC: Carrying Capacity Network, 1994).

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Richard Vedder is Edwin L. and Ruth Kennedy Distinguished Professor of Economics and Faculty Associate of the the Contemporary History Institute at Ohio University, where he has taught since receiving his Ph.D. in Economics from the University of Illinois in 1965. An economic historian, he has authored or co-edited six books or monographs on historical themes or public policy issues, including *Out of Work: Unemployment and Government in 20th Century America*, and *The War on the Poor*, IPI Policy Report No. 117, both written with Lowell Gallaway. His works have played a key role in recent discussions on budget deficit reductions, and he speaks frequently on federal spending and taxation throughout the country.

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