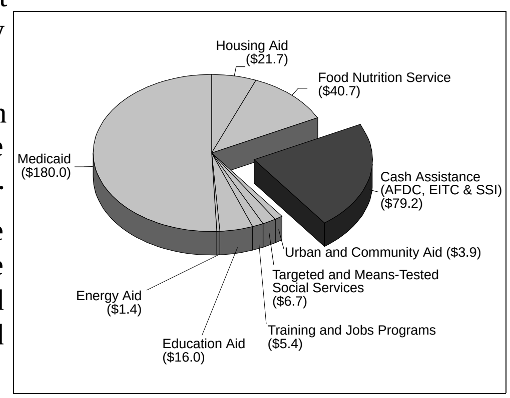
Executive Summary

In 1964, President Lyndon Johnson led America into a war that was to become our biggest, most expensive, most protracted, and least successful: the War on Poverty. Today, after thirty years of failed reforms, America faces higher poverty rates than when the War on Poverty began, and millions of welfare casualties are ensnared in a web of costly government dependence.

Projected 1995 Government Welfare Spending ($ billions)

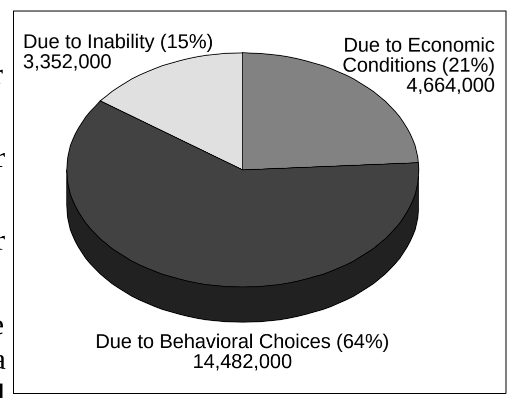


- Since 1965, welfare spending has cost taxpayers $4.9 trillion in constant 1992 dollars. The federal government alone administers 76 federal programs at a cost of more than $240 billion—more than *twice* the amount necessary to raise every welfare recipient above the poverty level.
- In 1995 government at all levels will spend at least $355 billion on welfare, or nearly one billion dollars *every day*. Meanwhile, the "official" poverty rate in 1993 was higher than the one reported in 1966.

Using "official" poverty estimates, 39 million people lived below the poverty level in 1993. But this number is misleading, as non-cash welfare benefits like food stamps, housing and energy assistance, and Medicaid are not counted toward the level of income necessary to raise a household above the poverty threshold.

- Almost 80 percent of all welfare benefits are of the non-cash variety and have no potential to reduce the "official" poverty rate. This failure to account for non-cash benefits has led to an "official" poverty rate that is overestimated by as much as one-third.

Composition of U.S. Poverty, 1991, Derived from Census Bureau Data



There are many reasons why poverty exists in America, but only a small percentage can be traced to a lack of economic opportunity. According to Census Bureau statistics:

- Over 64 percent of those living below the poverty level are poor because of **behavioral decisions**.
- Only about 20 percent of those living below the poverty level are poor because of **lack of economic opportunity**.
- Only about 15 percent of those living below the poverty level are poor because of **illness, disability, or other inability**.

The income transfers associated with most welfare programs have proven to be the system's biggest downfall, providing what is for many a more attractive alternative than work. Welfare programs have contributed to the breakdown of the family, with serious societal and economic implications. Married couple households earn an average 2.44 times more than female-headed households, and female-headed households are associated with low standards of living, poor educational performance, and higher crime rates. Collectively, these have produced a general deterioration in the cultural fabric of the poor in America.

As the welfare system has expanded, the connection between income and work effort has deteriorated, replaced in substantial part by an increased reliance on government welfare. President Clinton has promised to "end welfare as we know it," and the American people are waiting for action. Every day that passes without a serious effort at remaking this system is one more day in which more and more people are captured by it, and are isolated from the mainstream of American economic and social life. Our government welfare system is a billion dollar a day disaster that America, in more than just the economic sense, can no longer afford.

THE COST OF WAITING FOR WELFARE REFORM

Introduction

During his presidential campaign, President Clinton promised to "end welfare as we know it."[1] Well, the American people agree with him—54 percent think we are spending too much on welfare, compared to only 16 percent who say "too little."[2] But the administration and Congress' focus on health care reform pushed welfare reform to the back burner. Unfortunately, this leaves us with a government that is spending almost a billion dollars a day on a welfare system that isn't working, and leaves millions of welfare recipients isolated from the mainstream of American economic life.

. . . the evidence suggests that the welfare system has become less of a safety net and more of a lifestyle choice.

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.[3]
- 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.[4] Welfare now absorbs 5 percent of GNP, up from 1.5 percent in 1965.[5]
- Since 1965, the federal government has spent over $4.9 trillion on welfare programs. Meanwhile, the poverty rate has gradually risen.[6]

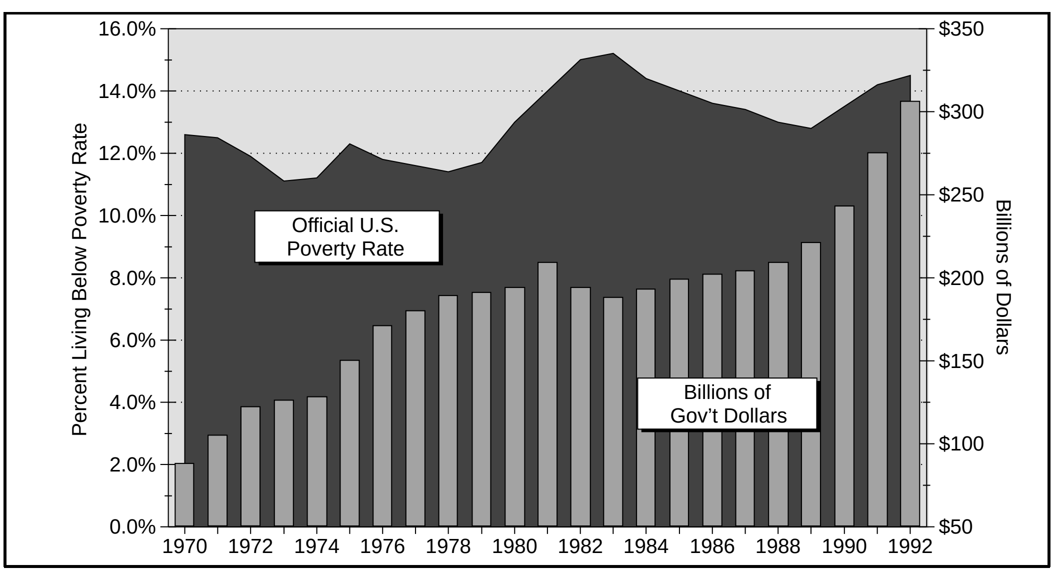
An unintended consequence of the welfare system has been to aggravate poverty by undermining families. By discouraging marriage and work, the welfare system has encouraged the development of female-headed households.

- Today, about 3 of 10 children live outside the traditional family arrangement, double the proportion of a generation ago.[7]
- Since 1970, an average of 44 percent of female-headed families have been poor versus six to eight percent of married couples.[8]

Figure 1

U.S. Welfare Spending vs. Poverty Rate, 1970-1992

Source: *U.S. Statistical Abstract, 1992*, Table 560, p. 354; Charles Murray, *Losing Ground*, Appendix Table 5, p. 245; *Economic Report of the President, 1994*, Table B-31, p. 304.



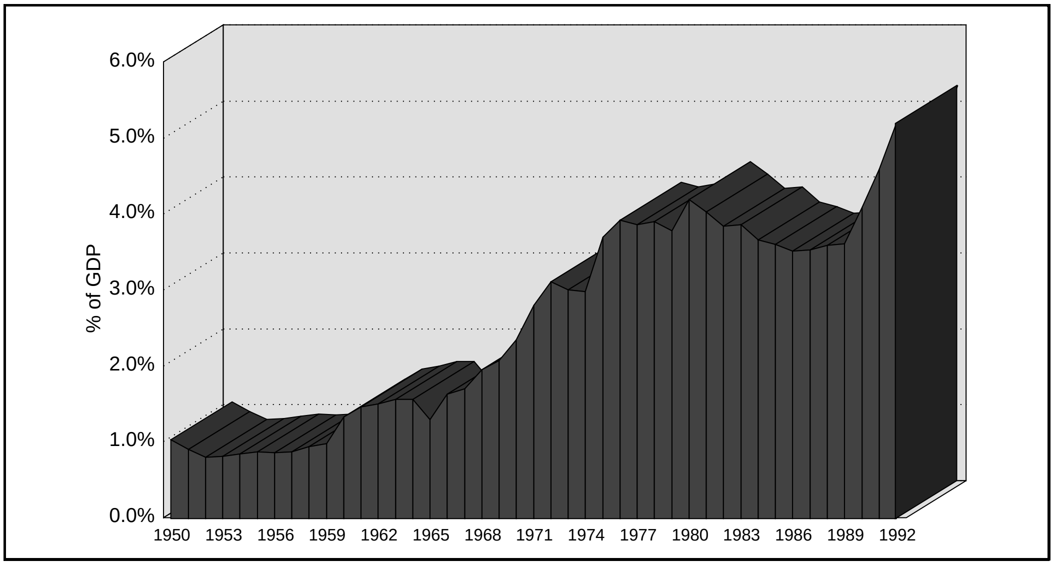


Figure 2

Total Welfare Spending as a Share of GDP

Source: Heritage Foundation calculations based on U.S. Bureau of the Census data.

- 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).[9]
- Nearly 45 percent of female-headed households have incomes under $15,000, compared with barely 10 percent of married-couple families.[10]

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.[11]
- 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.[12]

This is why welfare reform is again being discussed today. Unfortunately, the track record of welfare reform efforts is not very encouraging.

A SHORT HISTORY OF WELFARE REFORM

Welfare reform has been one of the enduring themes of American politics, almost since the beginning of the welfare system itself. As early as the 1960s, the welfare system was already showing its tendency to grow rapidly:

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- Between 1950 and 1960, cash public assistance per poor person (adjusted for inflation) in the United States increased by 65 percent while real per capita income rose by only 16 percent.[13]

During the early 1960s there was a sudden burst of concern about poverty in America. In particular, the economic condition of Appalachia and rural America became a major issue during the 1960 Democratic presidential primary elections. Two major intellectual works of the time also had a profound impact on the formation of public policy: John Kenneth Galbraith's *The Affluent Society*, published in 1958, and Michael Harrington's *The Other America*, published in 1962.[14]

The point of these two books was that a new kind of poverty was emerging in America, a poverty that was rooted in structural impediments that restricted people's participation in the American economy. Adherents to this view did not believe economic growth was sufficient to remedy poverty in America, because the new poverty population was just too far removed from the mainstream to be affected by economic growth. Cash income transfers were rejected because they would not provide a long-term solution to the underlying structural problem, treating the symptoms of poverty, not its causes.

The Galbraith-Harrington perception of poverty and welfare came to dominate American public policy. John F. Kennedy's first *Economic Report of the President* (January 1962) referred to people, "whose poverty is barely touched by . . . improvements in general economic activities," adding that, "To an increasing extent, the poorest families in America are those headed by . . . people who are shortchanged even in times of prosperity."[15] That *Economic Report* recommended policy changes designed to rehabilitate people and bring them back into ordinary American economic life.

By 1967, Lyndon Johnson felt compelled to appoint a presidential commission to consider, of all things, welfare reform.

In the three years following Kennedy's *Economic Report* of 1962, inflation-adjusted cash public assistance per poor person increased by a third, and in 1965 alone, the year following the institution of the modern welfare state and President Lyndon Johnson's fated pronouncement of the death of the dole, cash assistance escalated by more than 12 percent.[16]

In the years following 1965, the volume of income transfers, both cash and non-cash, grew tremendously. By 1967, Lyndon Johnson felt compelled to appoint a presidential commission to consider, of all things, welfare reform. One of the more forceful statements of the nature of the problem appeared in Fortune magazine in 1968:[17]

> *Seldom has a nation governed by rational men created an institution so erratic in its operation, and so perverse in many of its social effects, as the U.S. welfare system . . . welfare payments have zoomed . . . million[s] of Americans are now . . . on some form of the dole . . . It has done nothing to rehabilitate people and put them to work, and far from promoting the cohesiveness of family life, it has tended to encourage the break-up of families, with particularly disastrous results in the Negro slums.*

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 to 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

But the best Johnson's Income Maintenance Commission could offer was a repackaged version of the dreaded "dole," this time in the form of a negative income tax. Meanwhile, the volume of income transfers continued to rise.

In his Family Assistance Plan (FAP), Richard Nixon insisted on a stiff work requirement. However, the FAP failed to muster necessary congressional support, largely because it was regarded as being too stingy in dispensing benefits to the poor. During the rest of the decade there was sometimes talk of reform, but there was also much tinkering at the edges, sometimes with disastrous results. During the Ford administration, Casper Weinberger suggested an income supplementation plan that some estimated would have put another twenty million people on the welfare rolls. The President chose instead to tighten up the rules on the food stamp program, but Congress balked. In 1977, the Carter administration proposed a thorough change in the welfare system that would further federalize it, extend eligibility, substitute cash payments for food stamps, combine major income supplement programs (except for housing), provide public sector jobs, and expand the Earned Income Tax Credit. Congress rejected the proposal, choosing instead to take actions that insured that the food stamp program would continue to grow.

Between 1989 and 1992, real per capita income fell by 5.5 percent. At the same time, the real level of income security payments shot upward by 28.0 percent.

The welfare system grew rapidly during the years 1970-77, when by one measure the welfare burden per person in the United States rose by over 120 percent.[18] Regardless of which party controlled the White House, more programs were instituted, more benefits extended, and more people were ensnared in the web of the welfare system. The modifications made to the basic income transfer system were like rearranging the deck chairs on the *Titanic*, all while costs spiralled and spending soared. The New Frontier and Great Society had become the Transfer Society.

Finally, time had shown, as had penetrating analyses of the basic premise underlying the transfer society,[19] that providing direct income supplements would not solve the poverty problem, but rather worsened it. For example:

- Between 1973 and 1981, real per capita income rose a mere 7.2 percent, meaning that real per capita public aid rose more than five times faster than real per capita income. [Figure 3.] [20]
- During that same period, the "official" poverty rate rose from 11.1 percent to 14.0 percent.[21] During this same period, federal public aid expenditures rose by 38.6 percent in real terms.[22]
- Between 1989 and 1992, real per capita income *fell* by 5.5 percent. At the same time, the real level of income security payments shot upward by 28.0 percent.

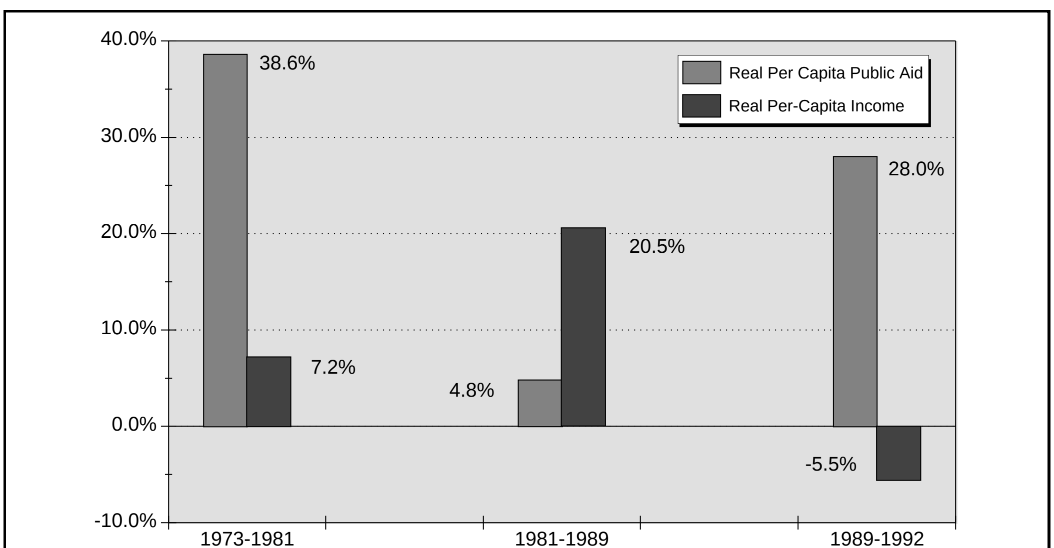


Figure 3

Change in Real Income and Real Public Aid, 1973-1992

Source: U.S. Bureau of the Census; Social Security Administration

This last burst of growth in the welfare system came following our most recent excursion into the realm of welfare reform, the Family Support Act of 1988. Its major sponsor, Senator Daniel Patrick Moynihan, was quoted as follows:

> *"We're going to turn the welfare program upside down. We're going to take a payments program with a minor emphasis on jobs, and create a jobs program in which the income supplement is assumed to be temporary."*[23]

Unfortunately, the Senator was mistaken. Today, in addition to the apparent inability of the current welfare system to reduce poverty, there is increasing concern about welfare's relationship between juvenile crime and declining educational performance. All in all, while there is almost universal agreement on the need for reform, the legacy of welfare reform has been the continued expansion of the system, with its associated problems.

WHAT IS WELFARE?

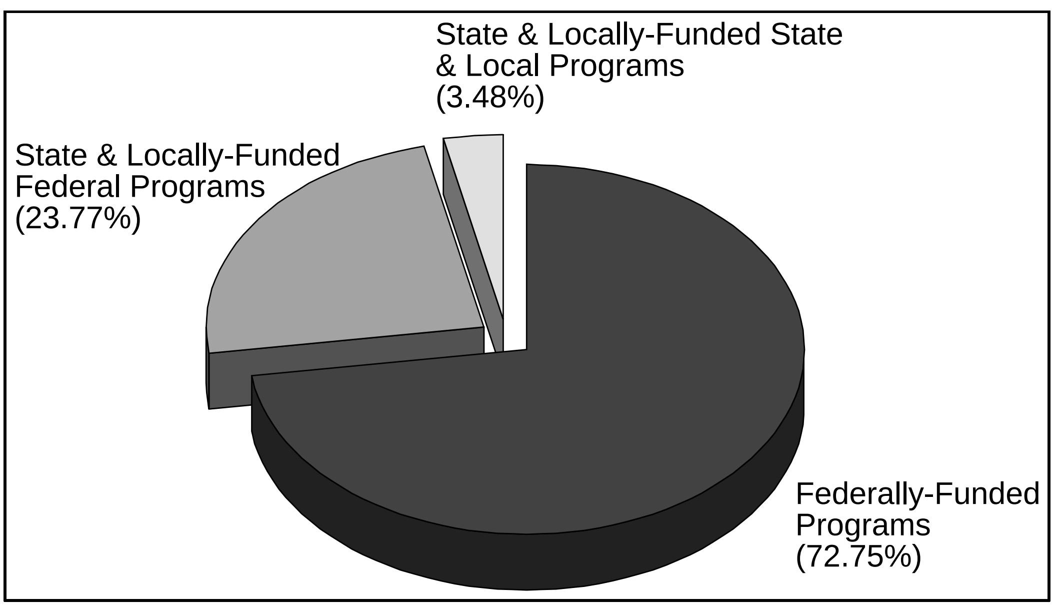
Typically, when people think about welfare, they think only of AFDC and the Food Stamp program. But our modern welfare system includes at least 76 programs on the federal level *alone*, including cash aid programs, food programs, medical aid programs, housing aid programs, energy aid programs, jobs and training programs, targeted and means-tested education programs, social service programs, and urban and community development programs.[24] In 1992, total federal, state and local welfare expenditures reached $304.6 billion, of which $221.3 billion came from federal funding.[25] But because the majority of state and local programs, though funded locally, were created by the federal government, roughly 96 percent of welfare spending represents either federal funding or state contributions to federal programs.[26] [Figure 4.]

In 1995, government will spend at least $355 billion, or nearly one *billion* dollars *every day*, on the welfare system. [Figure 5.]

Figure 4

Federal Participation in Total Welfare Programs, 1992

Source: Rector, *op. cit.*



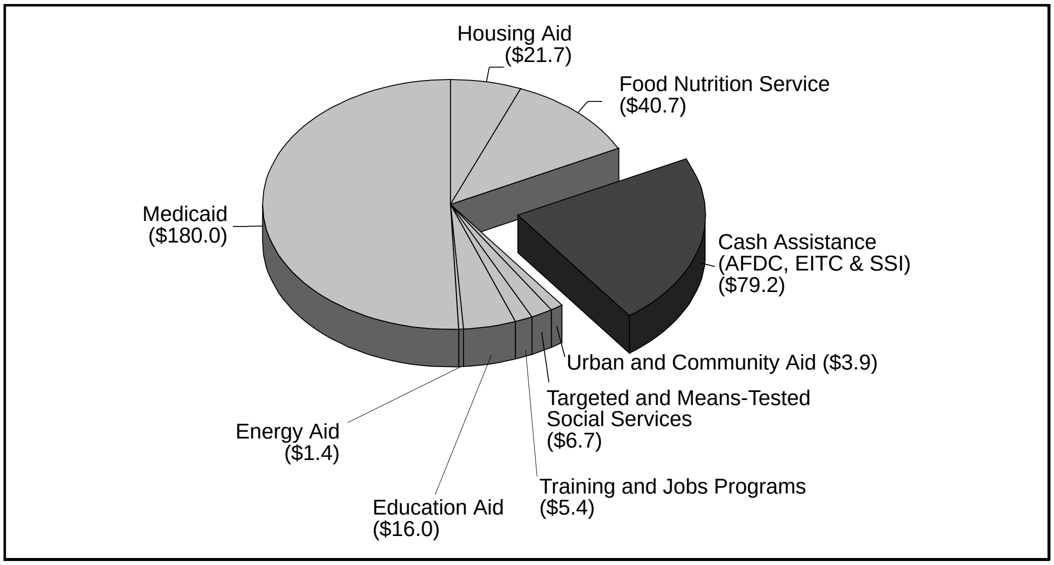


Figure 5

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.

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.

WHO ARE THE POOR?

Defining poverty is the obvious first step before attempting to discover the causes of poverty. Unfortunately, there are conceptual and measurement problems associated with defining poverty. Originally, the *poverty level of income* was fairly straightforward: the level necessary to provide a family with a diet that was minimally adequate in a nutritional sense.[27] However, two major problems have emerged. First, there is the matter of how to treat non-money sources of income. Over time, more and more welfare benefits have taken the non-cash form. Generally, no more than one-third of welfare spending takes the form of direct cash assistance that is means-tested, i. e., is limited to those regarded as being "in need."[28]

Non-Cash Benefits

Only money income is counted by those who determine the "official" poverty level of the United States. Non-cash benefits to the needy are not counted by the Census Bureau toward the level of income necessary to raise a household or person above the poverty threshold. Thus, *such major welfare initiatives as food stamps, housing and energy assistance for the needy, and Medicaid, by definition, cannot have any impact on the "official" poverty rate.* In fact, for reasons that will be spelled out later, the work disincentives that accompany means-tested benefits will reduce work-related income, leading to an increase in the "official" poverty rate.

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Massive Underreporting of Benefits

Census Bureau estimates of poverty are plagued by massive underreporting of welfare benefits. Depending on the particular form of the benefits, anywhere from one-third to three-fourths of welfare spending simply does not get counted, even in the alternative estimates.[29] Some of the non-counting is deliberate, as in the case of medical benefits. The Census Bureau chooses to count only a fraction of medical benefits towards meeting the poverty threshold levels of income. The rationale for this is that these "benefits have no income value if the family is unable to meet basic food and housing requirements."[30]

Table 1 illustrates the magnitude of the problems associated with producing the "official" poverty statistics. For means-tested cash transfers the reporting in the Current Population Survey (CPS) for the year 1990 is the most complete, accounting for 72.1 percent of the $50.3 billion of actual means-tested cash transfers estimated by the Congressional Research Service (CRS).[31] In contrast, only 35.4 percent of the CRS estimate for 1990 of $108.6 billion of means-tested non-cash transfers are

Table 1

Census Bureau Spending Estimates of Poverty, 1990 (billions of dollars)

Source: *Poverty, Income Distribution, the Family and Public Policy*, Subcommittee on Trade, Productivity and Economic Growth, Joint Economic Committee, Congress of the United States (Washington: U.S. Government Printing Office, 1986), p. 31.

Welfare Spending Category	Estimate of Actual Spending	Spending Taken Account of by Census Bureau in Estimating Poverty	
		"Official" Estimate	Alternative Estimate
Means-Tested Cash	$ 50.30	$ 36.27	$ 36.27
Means-Tested Non-Cash	108.61	0.00	38.40
Other	26.34	0.00	0.00
Total	$ 185.25	$ 36.27	$ 74.67

actually considered in the alternative poverty estimates from the CPS data. There are also other types of programs that do not include income transfers (either cash or non-cash) but are designed to improve the economic prospects of the needy. None of these are taken into account in either the "official" or alternative poverty estimates developed by the Census Bureau.

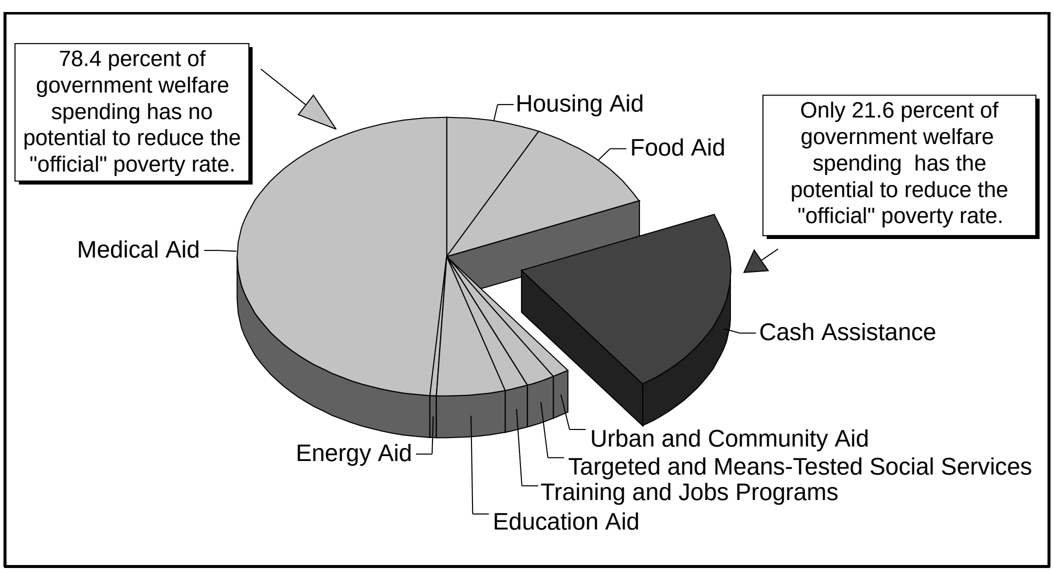
. . . only about 20 percent of all welfare spending has any potential at all to reduce the "official" poverty rate

To summarize, it appears that *only about 20 percent of all welfare spending has any potential at all to reduce the "official" poverty rate* by supplementing the money income of needy persons. [Figure 6.] Further, even where some non-cash income is considered, only 40 percent of all welfare spending is taken into account. The significance of this undercounting is substantial. *The failure to consider the true volume of all welfare spending when estimating the poverty rate in the United States led to a possible overstatement of the 1990 alternative poverty rate estimate by 4.5 percentage points.* This is not quite one-half of the final alternative estimate for that year of 9.8 percent and is exactly one-third of the "official" estimated poverty rate of 13.5 percent.

There is a third problem with poverty rate estimates from the Bureau of the Census. They employ poverty income levels calculated from the official Consumer Price Index (CPI-U). It is well known that this index developed a pronounced upward bias in the late 1970s and early 1980s due to its treatment of homeowner costs. This is recognized by the Bureau of Labor Statistics, which has developed and recommends the use of an alternative data series (labeled CPI-U-X1) that is free of these biases. Since the estimates of poverty threshold levels of income are nothing more than extrapolations of real living costs through time, and since homeowner costs are a significant factor in determining poverty status, it would seem desirable to use the CPI-U-X1 for purposes of calculating poverty rates. When this is done, both the "official" and alternative poverty rate estimates are lowered substantially. For the year 1990, for example, the "official" rate would have been 1.4 percentage points lower and the final alternative rate would have been reduced by 1.3 percentage points.

Figure 6

Potential of Welfare Spending to Reduce "Official" Poverty Rate



Adjusting the CPI-U-X1 version of the 1990 poverty rate to fully reflect the impact of welfare spending would reduce it from 8.5 percent to about 4.0 percent. *Suddenly, the "poverty problem" that is the justification for the welfare system seems to have significantly declined.* It is important to realize this in the context of any national debate concerning welfare reform. Waving the "bloody shirt" of massive poverty as an excuse for further expanding welfare programs is an inappropriate foundation for considering the future directions of the welfare system in the United States.

WHAT CAUSES POVERTY?

Though we have determined that "official" estimates greatly inflate the true size of poverty in America, beyond doubt there are those who are genuinely in need. Several things may cause people to have poverty levels of income at any time.

Lack of Economic Opportunity

First, there is the obvious matter of not having a job that provides an income sufficient to raise someone above the poverty level. This is what may be called *poverty based on lack of economic opportunity*. There is more than one variant of this form of poverty. First, an individual may not be able to find a job. Here, unemployment is the crucial factor. A second possibility is that a job is available but it is only part time and the person would like a full-time job but cannot find one. Finally, there is a third situation, one in which someone has a job that is full-time in every sense of the word but the wage rate is so low that the job does not produce enough income to lift the person above the poverty threshold.

Behavioral Poverty

Being poor because of a lack of job opportunity may be viewed as an indication of a dysfunctional aspect of the economy. However, it is not the only form that poverty can take. People may choose to do things other than work. For example, what about those who spend their time in school rather than working? Or, those who prefer not to work for family reasons or because they have elected to retire from the labor force? Their poverty says nothing about the effectiveness of the economy in providing economic opportunity. Since poverty of this sort arises out of patterns of behavior that people have chosen, it is better thought of as "behavioral" poverty.

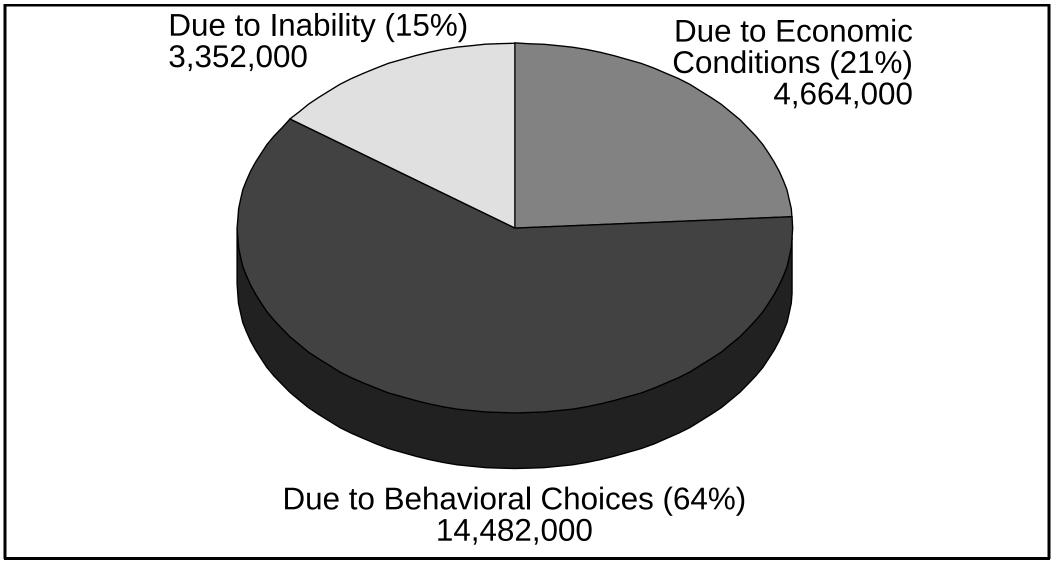
Inability

There is a third form of poverty that involves those people who are not working because of illness or incapacity. Not working because of poor health is clearly not related to the availability of economic opportunity, 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.

The critical category is what we have called "behavioral" poverty. Behavioral poverty implies that people are making life-style choices that preclude them from participation in the job market. An obvious reason for their being able to do this is the availability of some alternative source of income, namely transfer payments through the mechanism of the welfare system.

Figure 7

Composition of U.S. Poor, Derived from 1991 Census Bureau Data



This being the case, the relative importance of both "economic" and "behavioral" poverty becomes an important consideration from the standpoint of welfare reform. What follows is an attempt to determine what portions of the poor population belong in each of these three categories.

A Taxonomy of Poverty

Fortunately, the data in standard Census Bureau poverty reports in the United States provide enough detail to permit sorting people into these categories.[32] The critical information is that which documents the reasons that people give for either not working or for being out of the labor force at some time during the year. Combined with other data, a distinction may be made between poverty caused by a lack of economic opportunity and poverty produced by other factors.

Of the total population of 191 million civilians aged 16 and over during 1991, 22.5 million of them are considered to be living in poverty by the Census Bureau. Again, of the total population, 132.5 million worked during 1991 and 58.5 million did not. Those working can be further subdivided into three categories, those who worked year-round full-time, those who worked during the year but spent some time out of the labor force, and those who worked year-round, but part-time.

Not surprisingly, the number of [full-time workers] who are classified as having poverty levels of income is small.

We turn first to those who worked year-round full time. They account for about 60 percent of all workers. Not surprisingly, the number of these persons who are classified as having poverty levels of income is small. Only 2 million of the 79.5 million year-round full-time workers, 2.6 percent, are in this group. These people are clearly a part of what has been called poverty resulting from a lack of economic opportunity.

Next are those who worked during the year but were out of work at some point. The incidence of poverty among this group is much higher. Almost four million of the 28 million persons in this classification had poverty levels of income. This gives a poverty rate of 14.0 percent. The important thing here is the reason members of this group were not employed year-round, full-time. The CPS asks people why this happened and groups the answers into five basic categories: (1) Ill or disabled; (2) Retired; (3) Home or family reasons; (4) Could not find work; or (5) School or other. The classification of people’s responses is based on the major reason for their status. Consequently, there is no overlap in the responses.

Only one of these reasons indicates a situation where there is a clear lack of economic opportunity—the case where people said they could not find work.

516,000 poor people offered this explanation for their work interruption. These should be added to the 2 million already judged to be poor because of lack of economic opportunity.

The bulk of the poor whose work was interrupted during the year give *behavioral* reasons. 108,000 said retirement, 1 million home or family reasons, and 1.7 million school or other. This sums to 2.9 million, or 73.7 percent of the total of 3.9 million. This leaves the ill and disabled, some 527,000, who make up what we have called poverty due to inability.

The last group of poor workers, those who did not work year-round full-time but were not out of the labor force during the year, is more difficult to classify. They number 3 million, but the reported data do not provide reasons for their less than year-round full-time status. However, the Bureau of Labor Statistics (BLS) presents data on the total number of people working part-time and those who are working part-time for economic reasons, either slack work in their normally full-time job or could only find part-time work. According to these statistics, at mid-1991, approximately 28 percent of those working part-time were doing so for economic reasons. If we take 28 percent of the total of 3 million, we estimate that 876,000 persons should be added to the poor whose poverty can be attributed to a lack of economic opportunity. The BLS describes the remainder of those working part-time as "voluntary part-time." If that terminology is accepted, the remainder of the 3 million poor we are talking about, 2.2 million people, should be viewed as an addition to behavioral poverty.

Only 20.7 percent of all poverty among persons aged 16 and over in the United States can be traced to a lack of economic opportunity.

So much for those who worked in 1991. What about the 58.4 million who did not? Over one fifth of them, 13.3 million, were "officially" classified as poor. However, only about one in eleven of these people (a total of 1.2 million) gave "not able to find work" as the major reason for not working during 1991. That group represents an addition to those who can be considered to be poor because of a lack of economic opportunity. Of the other 12 million poor who did not work, 2.8 million said they were ill or disabled and 9 million gave either retirement (2.6 million), home or family reasons (4.3 million), or school or other (2.4 million) as the primary explanation for their not working.

The distribution of poor persons aged 16 and over into the three categories of poverty that have been discussed is shown in Table 2. For the entire group, the "official" Census poverty rate is 11.8 percent. Lack of economic opportunity accounts for 2.4 percentage points of this aggregate poverty rate, inability for 1.8 percentage points, and basic behavioral decisions of people for 7.6 percentage points. Thus, only 20.7 percent of all poverty among persons aged 16 and over in the United States can be traced to a lack of economic opportunity. At the same time, 64.4 percent of "official" poverty falls into the category of behavioral poverty, i. e., poverty that is the result of various personal decisions with respect to life-style and the like. The remaining 14.9 percent is due to inability resulting from illness and disability.

Table 2

Distribution of Poor Persons, Age 16 and Over, by Reason of Being in Poverty, 1991

Reason for Being in Poverty	Number of Persons	Percent of Total
Economic Conditions	4,664,000	20.7%
Behavioral Choices	14,482,000	64.4%
Inability	3,352,000	14.9%
Total	22,498,000	100.0%

The most dominant cause of poverty is personal behavior that carries with it a relatively low level of income.

The preceding analysis is incomplete in that it does not account for the sources of poverty among children. This is a very sizable group. The number of related children under age 18 living in poverty in 1991 is reported by the Census Bureau as 13.6 million. The difficulty here is one of relating the source of a child's poverty to the reason for the poverty of other individuals in a household.

The information describing the work experience of individuals is detailed enough to permit replicating the analysis for all persons focusing only on those aged 16 to 64 who are householders with related children under age 18. The aggregate "official" poverty rate for this group is 17.8 percent, 5.4 percentage points of which can be attributed to lack of economic opportunity. Poverty induced by lack of economic opportunity represents 30.34 percent of total poverty for these individuals.

If it is assumed that poverty among children is distributed in the same fashion as poverty among householders with related children under age 18, it follows that the number of children whose poverty stems from lack of economic opportunity will be 30.84 percent of poor children. Before making this calculation, there is one minor adjustment that must be made to the number of children in poverty. Since the basic data for poverty among all persons encompasses people age 16 and over, any related children aged 16 and 17 living in poverty have already been accounted for in the previous analysis. Fortunately, data on the poverty status of people aged 16 and 17 are available, making it possible to calculate a total population aged less than 16. This group numbers 59.3 million and 13 million of them are classified as being in poverty. 30.34 percent of that number is 4 million. These are children who should be added to those whose poverty condition can be traced to a lack of economic opportunity. This raises the percentage of those living in poverty for this reason to 3.5, not quite 25 percent of the 14.2 percent overall poverty rate.

In conclusion, a relatively small proportion of poverty in the United States can be traced to a shortfall of economic opportunity. Instead, the primary causes of poverty are a combination of people making behavioral choices that are consistent with low-income status and illness or disability, with the behavioral factor being the dominant one. The most dominant cause of poverty is personal behavior that carries with it a relatively low level of income.

THE LAW OF DELIBERATELY-IGNORED CONSEQUENCES

It is not enough to state that welfare has failed to cure poverty. The paradox of welfare is that it appears to actually worsen poverty.[33] This was the emphasis of the critics of the welfare system during the 1980s, who argued that a welfare system that emphasizes the "dole" as a means of alleviating poverty is doomed to failure because of its effects on the behavior of its clients. In the early days of the welfare system the effect of the work disincentives was discounted by advocates of an income transfer system. However, evidence emerged suggesting that people tend to reduce the amount of their work after receiving income transfers.[34]

The paradox of welfare is that it appears to actually worsen poverty.

In an attempt to defuse criticism of income transfer systems, an extensive set of experiments were conducted by the Federal government during the late 1960s and early 1970s. The most widely known of these became known as the SIME / DIME, standing for the Seattle and Denver Income Maintenance Experiments. The results provided a powerful confirmation of the importance of work disincentives, indicating that an additional $1.00 of transfer payment income reduces income from work effort by $ 0.80. Not to be deterred, the advocates of larger programs of income transfers often took the position that since the loss of work income was less than the amount of the income transfer, transfers would still have a poverty reducing effect.[35] However, this ignores the non-money character of many transfers.

In a series of analyses conducted in the mid-1980s, we demonstrated that, after controlling for macroeconomic conditions, income transfers tended to reduce poverty up to a point. However, beyond that point they tend to reduce money income, rather than increase it.[36] Unfortunately for the welfare establishment, that critical point had been reached in the early 1970s, meaning that a major part of the expenditures of the American welfare system were absolutely counter-productive in terms of reducing the "official" poverty in the United States.

The way income transfers reduce both work effort and income is simple. As alternative sources of income become available to people, some reduce their work efforts, even to the point of withdrawing from the labor force.[37] Further, even in those cases where people do not withdraw from the labor force, they become more selective in their job search, often refusing jobs because they do not pay enough. This leads to a rise in the amount of unemployment that is considered "normal" or "natural" in the United States.[38] Thus, as the welfare system has expanded, the connection between income and work has deteriorated, replaced in substantial part by a connection between income and the beneficence of some government agency. This is the essence of the modern welfare state.

However, when it happens time after time, as it has in the case of the welfare system, the law should be amended to read The Law of Deliberately Ignored Consequences.

The paradox of a social program that produces results contrary to its objectives is often described as an example of the Law of Unintended Consequences, with the assumption that those who designed and supported the program in the first place had admirable intentions but were betrayed by changes in human behavior. This interpretation can be defended the first time something occurs. However, when it happens time after time, as it has in the case of the welfare system, the law should be amended to read The Law of Deliberately Ignored Consequences.

It appears to be in the interest of the poverty and welfare establishment to support two basic propositions; (1) poverty is an intransigent phenomenon and (2) dealing with it requires greater and greater social efforts, especially the commitment of increasing amounts of public resources to programs designed to reduce poverty.

WHICH POVERTY PROGRAMS WORK?

As far as reducing poverty is concerned, the welfare system has been a failure. But by looking at the various components of the total welfare package, is it possible to find that *any* of these programs has had a beneficial effect? And what conclusions might be drawn from this examination?

Earlier, the presence of a set of alternative poverty estimates was noted. All told, there are 14 different definitions, and the Census Bureau provides year-by-year data beginning with 1979.[39] These definitions differ in how they treat taxes, various types of income transfers, and the values of other income sources.

When the subsidy is clearly tied to work effort, the effect is substantial.

Using these data, it is possible to observe the separate effects of various income transfer policies at different points in time and compare them with the amount of public resources devoted to financing them. To do this, we have chosen to compare the years 1981 and 1991, which are ideal for this purpose because the Census Bureau estimates an effective poverty rate of 21.1 percent in both years.

In the tax policy phase of modifying the income definition, the effective poverty rate is driven up by 1.3 percentage points (to 22.4 percent) in 1981 but only by 0.7 percentage points in 1991. The major reason for this is the impact of the Earned Income Tax Credit (EITC) on the effective poverty rate. The EITC is actually a form of income transfer or subsidy, although it differs from other transfers by being tied to the recipient's work effort. However, as a subsidy, its effect is to reduce the effective poverty rate. Thus, it is one of the transfer policies we are interested in evaluating. In 1981, the reduction associated with the EITC is two-tenths of a percentage point. In 1991, though, it is a full percentage point higher. At the same time, the per capita cost (in 1991 dollars) of the EITC rose from $10.65 to $28.34.[40] In this case, an income transfer or subsidy works in the expected direction (i.e., greater expenditures on it result in a larger reduction in the effective poverty rate).

When it is not, little seems to happen to the effective poverty rate as the volume of income transfers is increased.

As a general rule, however, this is not the case when the income definition is modified to account for a number of other programs that transfer income to people. In 1981, the impact of a variety of cash and non-cash transfers, both means-tested and non-means-tested, lowered the effective poverty rate by 10.9 percentage points. However, in 1991, the reduction was only 10.4 percentage points.

When contrasted with the effects of the EITC on the effective poverty rate, it becomes clear that the rules governing the distribution of income transfers and subsidies are extremely important in determining the impact of the subsidies on the burden of poverty. When the subsidy is clearly tied to work effort, the effect is substantial. When it is not, little seems to happen to the effective poverty rate as the volume of income transfers is increased.

These data indicate that, with one major exception, increases in spending on means-tested transfer payments to people between 1981 and 1991 had very little effect on the alternative poverty rates calculated by the Census Bureau. That one exception is the EITC. The lack of reduction in effective poverty accompanying increases through time in the real value of means-tested benefits implies that the amount of reduction in the effective poverty rate that accompanied each dollar of means-tested benefits has been on the decline. This is illustrated in Figure 8, which shows the amount of reduction in the effective poverty rate that accompanied each dollar of means-tested benefits for the years 1979-1991. In 1979, the first year for which the Census has calculated this information, it took benefits of a little more than $7 per capita to reduce the effective poverty rate by one-tenth of a percentage point. At the end, it takes almost $10 in benefits to do the same thing. Since both the

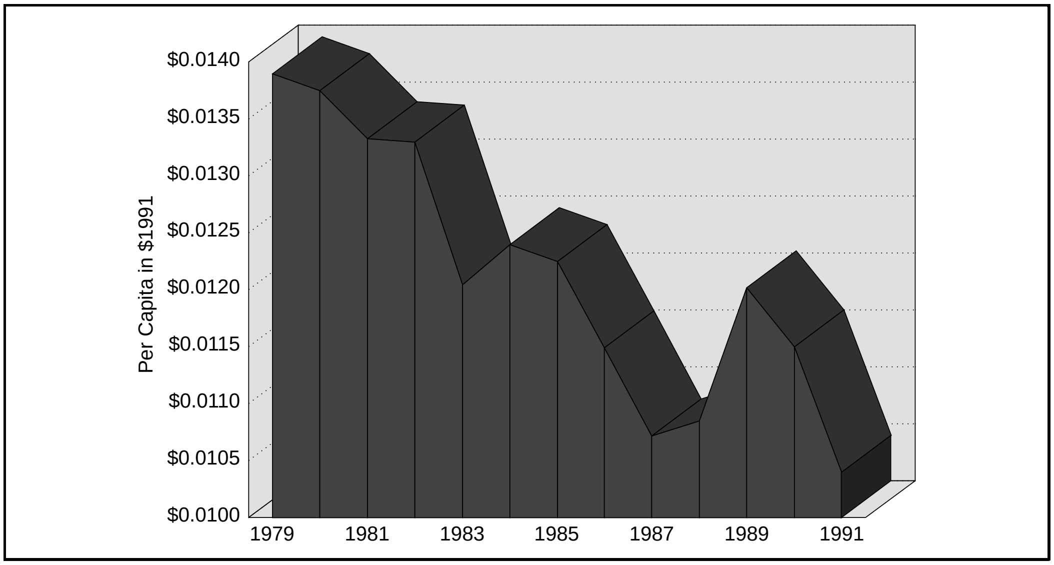


Figure 8

Decrease in Effective Poverty Rate per Dollar of Expenditures on Means-Tested Benefits, 1979-1991 (per-capita in $1991)

Source: U.S. Bureau of the Census, Current Populartion Reports, Series P-60, No. 182RD, *Measuring the Effect of Benefits and Taxes on Income and Poverty: 1979 to 1991*. U.S. Government Printing Office, Washington, DC, 1992, Table 1, pp. 1-5 and Table 2, p. 96.

poverty threshold and benefits are measured in real terms, it would be expected that an additional dollar of benefits would have the same impact on the effective poverty rate throughout the period. Clearly, this is not the case.

The lack of any additional "bang for the buck" associated with increases in transfer payment income must be the product of an increasingly inefficient system . . .

It is important to realize that the impact of any work disincentive effects are already reflected in the adjusted pre-tax and income transfer poverty rate measured by the Census Bureau. Beyond that point, the Census Bureau poverty rate adjustments reflect only the extent to which additional benefit expenditures are received by the poor. The clear implication is that, as a general rule, they don't make it to the poor. The lack of any additional "bang for the buck" associated with increases in transfer payment income must be the product of an increasingly inefficient system due to bureaucratic overhead and fraud, among other things. Until that shortcoming in the present income maintenance system is remedied, increasing the volume of transfer income benefits available to people, whether cash or non-cash, means-tested or non-means-tested, cannot be viewed as a useful method of reducing the effective rate of poverty in the United States.

THE WELFARE DEPENDENCE SYNDROME

The previous section demonstrated that a combination of work disincentives and difficulties in delivering income transfers to the poor more than cancel out any income-enhancing effects of welfare benefits. We need to ask, "Do these work disincentive effects perpetuate poverty by creating a web of dependence that traps people into a welfare lifestyle?"

Much research has been done recently on the extent to which it is possible to improve one's economic status over time.[41] Perhaps the most striking was developed by the Urban Institute out of the University of Michigan Survey Research Center data bank.[42] It describes the income levels of families in both 1977 and 1986 classified by their income quintile in 1977. [Table 3.] The research indicates that the possibilities for improving one's economic status are substantial. Upward income mobility dominates, refuting the common contention that the "rich get richer and the poor get poorer." Over this decade, those who started out in the bottom of the income distribution experienced a real income gain of 77 percent and captured 28 percent of the total income gains for all families in the data set. Those in the second quintile in 1977 showed a 37 percent increase in real income and received 27 percent of all income gains. By contrast, those who started at the top saw their income rise by only five percent and received but 11 percent of all income gains.

Table 3

Average Family Income, by Quintile in 1977, U.S., 1977 and 1986 (1991 dollars)

Source: Sawhill and Condon, *op. cit.*

Quintile in 1977	1977 Quintile Members in 1977	1977 Quintile Members in 1986	Percent Change	Percent of Total Income Gain
Bottom	$ 15,853	$ 27,998	77%	28%
Second	31,340	43,041	37%	27%
Third	43,297	51,796	20%	20%
Fourth	57,486	63,314	10%	14%
Top	92,531	97,140	5%	11%

These data indicate that the opportunity to be upwardly mobile in an economic sense does exist in American society. What remains to be seen is whether this mobility is affected by the provision of income transfers through the welfare system. Fortunately, data are available for two distinct groups of people, those who were participants in a major income transfer program and those who were not. Major programs include Aid to Families with Dependent Children (AFDC), general assistance, food stamps, Medicaid, public or other subsidized housing, and Supplemental Security Income (SSI).[43]

Table 4 presents these data for the two groups. Among those who were poor in 1987 but did not participate in a major welfare program, 55.0 percent remained in poverty in 1988, 16.3 percent moved to the near-poverty category (defined as having income greater than the poverty threshold but less than 125 percent of that threshold), and 28.8 percent climbed above the near-poverty category. On the other hand, among the poor in 1987 who were participants in major welfare programs, 81.6 percent stayed in poverty in 1988, 10.7 percent moved to the near-poverty level, and only 7.7 percent escaped the poor or near-poor category.

Table 4

Poverty Transitions, 1987-1988, Program Participants vs. Non-Participants, 1988

Source: U.S. Bureau of the Census

1987 Status	1988 Status (percent)		
	Non-Program Participant		
	Poor	Near Poor	Above Near Poor
Poor (100%)	55.0	16.3	28.8
Near Poor (100%)	22.1	32.0	45.9
Above Near Poor (100%)	0.9	1.4	97.7
	Program Participant		
Poor (100%)	81.6	10.7	7.7
Near Poor (100%)	19.6	41.0	39.4
Above Near Poor (100%)	9.3	3.7	85.0

These are sharp differences. *The possibility of exiting poverty from one year to the next is two-and-one-half times greater if one is **not** a participant in a major welfare program.* Clearly, any notion that assistance programs contribute to easing the transition from poverty to non-poverty status is questionable. The welfare system appears to actually reduce, not enhance, the future income prospects of the poor. The same behavioral changes that prevent the welfare system from reducing the "official" poverty rate have longer term consequences that prolong poverty.

The differential incidence of movement out of poverty is quantitatively important. 72.8 percent of poor persons in 1987 were program participants and they accounted for

80 percent of those who remained in poverty in 1988. Any reduction in program participation will increase the rate at which people move out of poverty. Similarly, any increase in program participation will reduce the exodus from poverty.

There are opportunities in American society for improving one's lifetime economic prospects. However, our welfare system discourages people from pursuing them. The end result is the welfare dependence syndrome. Welfare discourages people from doing the things necessary to elevate themselves from poverty. It is a vicious circle. Welfare perpetuates poverty, and the persistence of poverty is the rationale for more and bigger welfare programs.

WELFARE, FAMILY STRUCTURE AND ILLEGITIMACY

Before the advent of government welfare, a plethora of private organizations provided assistance for individuals who were economically disadvantaged: churches, aid societies, widows and orphans societies, etc. As Marvin Olasky has documented, these private organizations had an impressive record in reducing poverty and economic distress.[44] They did it largely by relying on human goodness unearthed in values such as love and compassion rather than by mechanistic disbursements of funds. Personal responsibility was required. As Olasky recounts, "No one was allowed to eat and run" at the pre-New Deal private charities. Additionally, families took care of less fortunate relatives, with children often caring for their parents in old age. While private organizations such as the Salvation Army continue to help the poor, there is strong evidence that their financial support has been dramatically eroded by the public's knowledge that the government provides public assistance.[45] It therefore is anticipated that an end to public charity would lead to an explosion in private charitable giving for the poor.[46]

There are opportunities in American society for improving one's lifetime economic prospects. However, our welfare system discourages people from pursuing them.

When the modern system of public assistance evolved in the 1930s, proponents felt that a humane society should take care of those who had no male breadwinner in the home. No thought was given to the possibility that public assistance predicated on the absence of a male head of household might lead to the growth in the number of such families. If you subsidize something, usually you get more of it, and this has been the case with single parent households and the welfare system. We believe the evidence supports two propositions: 1) welfare has increased the incidence of single parent families and contributed to the decline in traditional families (two married parents living together with their children); and 2) welfare has contributed to illegitimate babies being produced to obtain or increase public assistance payments.

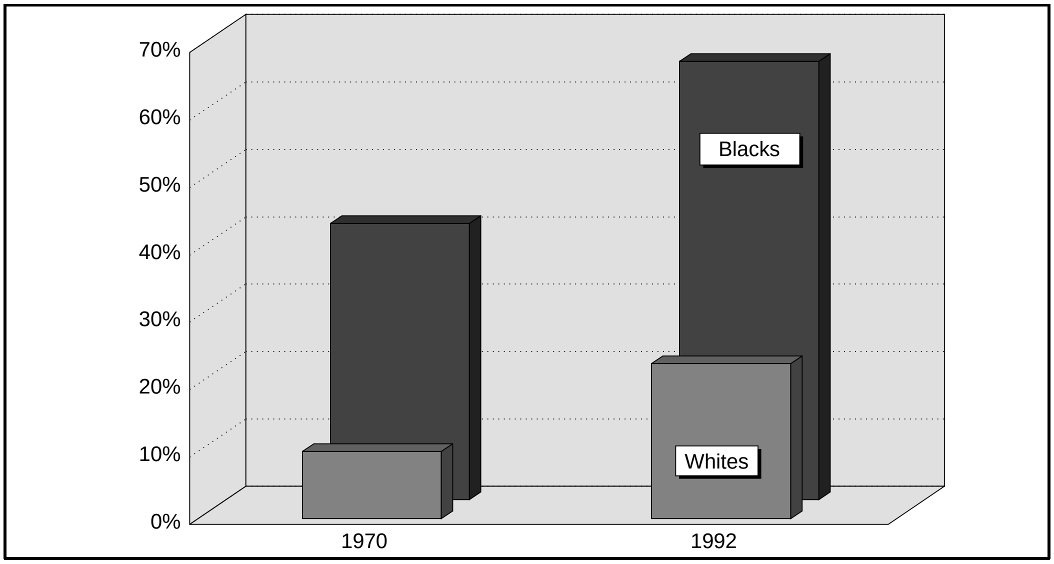
There has been a meteoric increase in the proportion of children not living in two parent families (Figure 9). Today, about 3 of 10 children live outside the traditional family arrangement, double the proportion of a generation ago. While this is a phenomenon that is most pronounced among minorities, particularly African-Americans, it is growing quite rapidly among whites as well (Figure 10).

During the same period, real public aid expenditures rose dramatically as well. Not only did spending on income-maintenance programs rise in real per capita terms, but they rose significantly faster than personal income. For example, cash benefit payments under public income-maintenance programs rose from $60.5 billion (7.3 percent of personal income) in 1970 to $450.9 billion (9.6 percent) 20 years later.

Figure 9

Percent of Children Living Outside of 2-Parent Families, By Race

Source: U.S. Bureau of the Census



While the literature on the relationship between welfare and family structure was distinctly mixed in the 1970s, more recent studies have more clearly indicated a significant relationship between public assistance and the breakdown of traditional family arrangements.[47] Some 20 years ago a study showed that AFDC promoted marital dissolution.[48] Several more recent studies have revealed significant positive correlations between the presence of independent female-headed families and welfare.[49]

The welfare system provides women with an alternative to a spouse, reducing the attractiveness of the marriage contract.

On balance, the evidence is that welfare benefits reduce the need for a traditional marital union with the division of labor associated with it.[50] According to that theory, in a traditional household the husband "traded" income and some heavy household services to the wife, who provided the husband other household services, including child care. The welfare system provides women with an alternative to a spouse, reducing the attractiveness of the marriage contract.

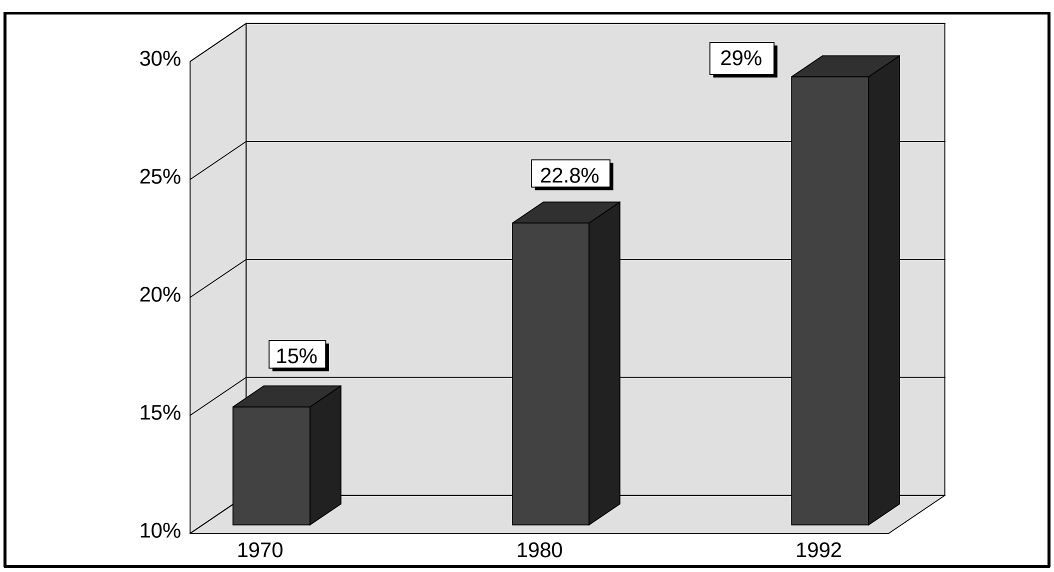
Unfortunately, the financial well being of female-headed family units is dramatically worse than that for male-headed households, particularly ones where there is a wife present. According to the Current Population Survey:

- 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).[51]
- Nearly 45 percent of households with female heads had income under $15,000, compared with barely 10 percent of married-couple families.

Figure 10

Percent of Children Under 18 Living Outside 2-Parent Families

Source: U.S. Bureau of the Census



- Not only were female-head family units on average much poorer, but the income inequality within that category was much greater than for traditional family units.[52]

To the extent welfare encourages such living arrangements, it contributes both to poverty and income inequality.

A women who has a child out of wedlock becomes a candidate for receiving Aid to Families with Dependent Children. Also, in general, a woman receiving AFDC who has another child receives increased welfare benefits as a consequence.[53] Elsewhere, we have demonstrated that the marginal benefits to women in the form of additional income often may exceed the marginal costs of having the child; if so, welfare induces pregnancies for economic reasons and thus increases the welfare population.[54]

America remains one of the few places in the world where a teen-ager can achieve independence from parents, a place to live, and an assured income—simply by becoming pregnant.

A number of important studies suggest that welfare promotes illegitimate births. Professor Cal Winegarden attributes roughly half of the increase in black illegitimacy to the impact of welfare.[55] Anne Hill and June O'Neill found an elasticity of illegitimacy with respect to AFDC/food stamp benefits that approaches one.[56] Controlling for other factors, a doubling of benefits would increase illegitimacy by 86 percent. Similar highly sensitive relationships between welfare and teen-age illegitimacy have been found by Robert Plotnick and Shelly Lundberg.[57]

Perhaps the most persuasive evidence supporting the view that welfare creates illegitimacy has been expounded by Charles Murray, whose seminal book began a modern debate on the welfare system.[58] Murray notes a strong correlation between the rise in illegitimacy and the magnitude of welfare benefits over time. Some deny that welfare benefits have risen, concentrating solely on AFDC payments per beneficiary in real terms. Murray rightly argues that the relevant consideration is the full package of income maintenance programs that affect behavior.

Lest this discussion imply that illegitimacy is a problem specific to one racial group, the evidence suggests otherwise. From 1970 to 1990, for example, the proportion of white babies born out of wedlock more than tripled, going from six to 20 percent, while that for blacks increased from 38 to 65 percent. In 1970, there were more black illegitimate births than white; by 1990, there were 175,000 more white illegitimate births.[59]

Social scientists and other academics are belatedly discovering what ordinary low income Americans have known for decades: Welfare destroys families.[60] The opportunity costs of getting and staying married have risen as welfare provides persons with surrogate spouses in an economic sense. The financial burden of having children has been turned to a financial benefit in some cases. America remains one of the few places in the world where a teen-ager can achieve independence from parents, a place to live, and an assured income—simply by becoming pregnant. As a nation, we have promoted behavior that for millennia has been viewed as inappropriate or sinful. Morality aside, one consequence of this behavior has been a persistently high rate of poverty among the one group least able to help themselves, America's children.

WELFARE'S EFFECTS ON EDUCATIONAL ACHIEVEMENT AND CRIME

Welfare Thwarts Educational Achievement

We have suggested that, on balance, welfare programs have not helped the poor. But might welfare have some other positive characteristics? For example, is it possible that welfare allows low income Americans to provide more positive educational opportunities for their children? What is the relationship between welfare and educational attainment?

If welfare is working as it was designed, it should improve the educational performance of students, thereby providing for the equal opportunities that Americans believe should be available. Welfare should be a means of reducing intergenerational inequalities that hinder some students as they strive to succeed.

For example, the Women, Infants and Children (WIC) program and Food Stamp program are designed to provide children with added nourishment, and the added calories and nutrition should reduce student fatigue and increase classroom alertness. The added income that welfare provides should allow families to visit museums, libraries, and other places.

Holding income, race, and other factors constant, welfare is associated with lower levels of learning.

Alternatively, the disincentive effects for work that the welfare system creates may carry over into other activities. If children see that their mother (typically) receives the same income whether she works or not, they may see no point in working, or in achieving in order to provide the necessities of life. Accordingly, they do not feel the need to excel in school. Moreover, the negative impact that welfare has on family structure adds to the problem. In stable married-couple families, both parents are there to help their children with their academic work, whereas with single-parent families, the lack of spousal support leads to greater neglect of the children's academic activities. Parental involvement in the school is important to successful learning; that involvement will be reduced to the extent welfare contributes to the breakdown of traditional families.[61]

In fact, low-performing high schools have almost three times as many poor students as high-performing schools.[62] Some 16.9 percent of students in the high-performing schools did not come from two-parent households, compared with 25.6 percent in low-performing high schools.[63] Clearly, there is a statistically significant relationship between student achievement and socioeconomic status.[64]

But the relationship is more specific than that. Actually, there appears to be a strong negative relationship between AFDC and student achievement. In a study using data from over 600 Ohio school districts using a standardized proficiency test administered to ninth-graders in the state, three scholars looked at the relationship between the incidence of Aid to Families with Dependent Children and student test performance, controlling for several other factors, including income, school district size, race, instructional expenditures per pupil, non-instructional spending per student, and school attendance rates.[65] Holding income, race, and other factors constant, welfare is associated with lower levels of learning.

Compare two school districts, one with no students on welfare and the other with 50 percent of its students receiving AFDC. Assume that in all other respects (average income, racial composition, school attendance, etc.) the districts are the same. The model predicts that about twice as many students would pass all parts of the proficiency test in the no-welfare district than in the one where public assistance is common (e.g, 40 percent vs. 20 percent).[66] By contrast, the relationship between student achievement and expenditures is weak.[67]

Incidentally, one interesting dimension of the findings is that no significant difference was observed by race. While black students tended to do dramatically poorer on the tests than whites, the reason was not related to race, but rather to the fact that blacks had different other characteristics than whites, in particular a high proportion were receiving AFDC.

Statistical association does not "prove" welfare reduces educational performance. Remember, however, that the reported results control for income, per-pupil spending, and other factors. In other words, *low income (poor) children from non-welfare homes perform better than children where public assistance is received.* Low income may hurt educational performance, but it appears that the sources of income also are important. Moreover, since welfare parents see little or no financial benefit from work effort, they do not emphasize educational excellence from their children, particularly since welfare mothers typically get the same check whether they go to school or not.

Welfare appears to hurt student achievement. This suggests that meaningful education reform in America probably needs to be tied to significant changes in our system of public assistance.

Welfare Promotes Crime

Nothing illustrates the destructiveness of the welfare state more than its impact on the incidence of crime in the United States. The relationship between crime and the welfare state may seem to be tenuous at first. However, the progression from welfare benefits to higher levels of crime is becoming well-established. The existing studies on the subject indicate that the path from welfare to crime runs through the phenomenon of the single-parent family. As discussed earlier, there appears to be a strong relationship between the availability of welfare benefits and the number of households of the single-parent variety. It is this which seems to drive the relationship between crime and welfare benefits.

Let us look at some of the findings. One of the most extensive examinations of this phenomenon found that the modern welfare state has created an American underclass that has adopted an entirely different set of values.[68] It has replaced the work ethic as a means of getting ahead with the ethic of social entitlement. It has replaced the traditional family with the single-parent family, for the most part headed by females, largely by offering incentives that encourage the formation of single-parent families and penalties that discourage the creation of traditional families.[69] And there enters the problem of crime. Much as prophesied by Daniel Patrick Moynihan in the mid-1960s, the lack of male figures of authority in these households promotes a disrespect for social authority that is easily translated into criminal behavior. When comparing young blacks reared in two-parent families with those from single-parent families, the latter show a crime rate roughly double that of the former.[70]

As to the link between the welfare system and crime, holding a large number of other factors constant, a 10 percent increase in AFDC and food stamp payments seems to produce more than a 20 percent rise in the crime rate for young blacks.[71] The particulars of this pathology trace through a number of negative factors that affect children reared in single-parent families.[72]

How does welfare promote crime? As indicated previously, welfare loosens the links between children and their male parents, and also seems to have negative effects on educational performance. This likely reduces discipline in the home. Welfare's impact in weakening a sense of work ethic and responsibility probably promotes the notion that illegally obtaining income (through drug sales or car theft) is a more lucrative and thrilling path to prosperity than earning income in a lawful occupation.

The role of welfare in generating crime in the United States adds a final flourish to the legacy of the welfare system. It is perhaps the most brutal example of the so-called Law of Unintended Consequences.

"Ending Welfare As We Know It"

In June of this year, the Clinton administration outlined its proposal for welfare reform.[73] At this point it is appropriate for us to examine the proposal in light of the observations made thus far. The essential elements of the proposals are:

- Any changes in the welfare system apply only to parents born after 1971;
- For such people, there will be a 24 month lifetime limit on cash benefits for anyone over the age of 18;
- Recipients of benefits under these rules will receive education, training, and job placement services needed to move them into the work force;
- During the training period, child-care services will be provided;
- Benefits will be lost for parents who refuse to stay in school, look for work, or attend job training programs
- In the event cash benefits are exhausted, and no job has been found, the recipient would be enrolled in a subsidized private sector or community service job paying at least the minimum wage plus benefits; and
- For those who leave welfare for a private sector job, a year's free day care for children will be provided.

First, note that these proposals involve absolutely no reform for about two thirds of those expected to be on the welfare rolls in 1996, the first year of the suggested system. Projections indicate that by the year 2000, half of those on welfare would be affected and by 2004, two-thirds would be covered. Of course, assuming no further changes in these rules over time, eventually all would be under the new system.

The question is whether the rules proposed for those born after 1971 will change "welfare as we know it." To answer that question, we must ask how the new system would alter the incentives associated with being on welfare. In the immediate future, during the two-year lifetime limit, benefits presumably would remain at present levels, meaning that welfare would stay at least as attractive as it is now. In many cases, the proposals would actually increase the incentive to go on welfare.

Let's put this in a real world context. Take a person making the welfare versus private sector employment decision who would prefer the private sector route. After the Clinton proposal, there would be *two* ways to get there—directly, by taking an entry-level position, or indirectly, through the welfare and job training system. A major advantage of the latter is that going on welfare, enrolling in a job training program, and then taking the private sector job gives one a year's free child care, in addition to the welfare benefits. Thus, people who might otherwise not go on welfare may be induced to do so on their way to the private sector job they preferred to take in the first place.

There is an historical precedent for such behavior. In the early 1980s, the state of Massachusetts inaugurated its Employment and Training (ET) program. It provided a package of education and employment counseling, plus for those placed in private sector jobs, a year's free child care, $10 a day for transportation expenses, and four months free Medicaid. In its first two years, some 24,000 welfare mothers were placed in private sector jobs. However, despite a decline in the state's unemployment rate from seven to three percent, the number of people on welfare remained virtually unchanged, and total AFDC payments rose by 15 percent.[74] People simply took an alternative path to private sector employment, inflating the welfare rolls in the process. While the ET program is not exactly the same as the Administration proposal, it bears a striking resemblance. Therefore, the same basic behavioral responses should be expected.

But what about the long-run? Might people decide to avoid welfare altogether because of the time limit on benefits? Only if exhausting benefits and being forced into a job is less desirable than going the private sector employment route from the beginning. The fine print of the Clinton proposal makes it clear that this is highly unlikely. To begin with, only a small fraction of those born after 1971 will be subjected to the work requirement if their benefits are exhausted. For example, in 1999, the various exemptions from the work requirement will excuse two-thirds of AFDC parents born after 1971.[75] Further, the number of participants in the subsidized job program (known as the WORK program) is capped at a level that would permit enrollment of only about seven percent of the total welfare population.[76]

The work requirements imposed in the administration proposal a modest 15 hours per week.[77] And the compensation for this "work" must be at least equal to the usual AFDC benefits received by the family.[78] Thus, there will be no decrease in cash income associated with being enrolled in the WORK program.[79] In addition, there are no work requirements associated with receiving Food Stamps and Medicaid, which, on average, constitute about 60 percent of welfare benefits.[80]

The bottom line is that the chance of even these proposals causing someone to choose the private labor market over the welfare alternative is quite small. For the remainder of the welfare population, it will be business as usual. In fact, it remains almost business as usual for the typical adult welfare recipient born after 1971.[81] For the most part, those people enrolled in the WORK program will simply be classified in a different category. Much of their wage and earnings income will be nothing more than a disguised welfare payment. This is a rather thin reed on which to hinge positive welfare reform.

Of course, it might be argued that the impact of the job training and education elements of the Administration proposal have been ignored. They have been, and with good reason. Job training programs have been notoriously unsuccessful. Perhaps typical of their success is the recent major private effort, a Manpower Demonstration Research Corporation project, which found that participants in a program (some 1,408 teens in ten different states) were no more likely to be off welfare or in a job after 18 months than a similar group that received no employment services.82 Or consider the record of the CETA job program, inaugurated during the Carter Administration, which is widely recognized as being something of a disaster.[83] Job retraining may be an even thinner reed on which to hang significant welfare reform.

To summarize, over the long run, the administration welfare reform proposal does almost nothing to alter the structure of work incentives that lies at the heart of the welfare problem.[84] If anything, under this proposal the welfare rolls will continue to grow, and we will have wasted another opportunity to institute meaningful changes in the American welfare system. And the Administration welfare reform proposal does nothing to deal with the social pathologies and behavioral patterns that drive the present system. The incentives that form female-headed single parent households, and all that accompanies them, remains essentially unchanged. Unfortunately, this translates into an even bigger version of "welfare as we have always known it," at least since the inception of the Great Society. If the administration proposal is the shape of things to come, we must resign ourselves to continuing to wait for truly useful changes in the American welfare system. Meanwhile, the level of welfare spending will continue to escalate. It is already projected to rise to $500 billion by 1998,[85] roughly 65 percent more than its 1992 level.

The Role of State and Local Governments

Before the 1930s, public assistance for the poor was a state and local government affair. Though the modern welfare state has dramatically increased federal participation, state and local governments still bear more than one-third of the total public assistance bill. As Table 6 shows, though real state and local public aid spending has risen substantially since 1960, the portion of welfare borne by state and local governments has steadily declined.

Table 5

State-Local, Federal, and Total Public Aid Expenditures, 1940-1990*

Source: Statistical Abstract of the United States, various years; Economic Report of the President, various years

*In billions of 1993 dollars; the CPI-U-X1 price deflator was used to convert values into dollars of constant purchasing power.

Year	Federal	State/Local	Total	State/Local as a Percent of Total
1940	$ 20.8	$ 13.3	$ 34.1	39.0%
1950	6.1	7.7	13.8	55.8%
1960	9.4	9.0	18.4	48.9%
1970	33.6	23.8	57.4	41.5%
1980	85.5	40.6	126.1	32.2%
1990	102.8	58.6	161.4	36.3%

Even those programs created under federal law and receiving substantial federal funding reserve major policy decisions about benefit levels for state and local authorities. [Table 7.]

Benefit levels vary widely, with the highest benefit states (California and Alaska) paying, on average, more than five times as much monthly as those with the lowest payments (Alabama and Mississippi). Even allowing for income differentials, the differences are great. Note that most northeastern and Pacific coast states had average annual AFDC benefits equal to between 20 and 30 percent of the average pay of workers in the state, as did a few of the more liberal midwestern states. The southern states, by contrast, tended to keep benefits in the 7 to 15 percent range. Considering that many public assistance recipients receive several benefits in addition to AFDC, total welfare payments (both cash and non-cash) in some states (most notably California) probably well exceeds half the pay of the average worker.

Differences between the states also extend to other areas including unemployment, workers' compensation, and general relief payments. About half the states have eliminated or substantially reduced general relief, a pre-Depression form of local and state government provision for the poor.

State	Average Monthly AFDC Benefit	Average Benefit as % of Average Pay	State	Average Monthly AFDC Benefit	Average Benefit as % of Average Pay
Alabama	$ 125	7.05%	Montana	$ 347	22.33%
Alaska	691	26.90%	Nebraska	332	20.57%
Arizona	299	16.16%	Nevada	287	14.92%
Arkansas	191	12.06%	New Hampshire	443	22.53%
California	691	30.15%	New Jersey	342	13.68%
Colorado	322	16.11%	New Mexico	304	17.99%
Connecticut	565	22.09%	New York	550	21.99%
Delaware	291	13.62%	North Carolina	238	13.54%
D.C.	386	13.02%	North Dakota	360	23.83%
Florida	267	14.57%	Ohio	325	16.52%
Georgia	267	13.83%	Oklahoma	301	17.22%
Hawaii	613	30.52%	Oregon	401	21.53%
Idaho	276	16.82%	Pennsylvania	380	18.69%
Illinois	346	15.78%	Rhode Island	510	26.51%
Indiana	267	14.23%	Sourth Carolina	203	11.92%
Iowa	380	23.02%	South Dakota	286	20.03%
Kansas	341	19.48%	Tennessee	187	10.42%
Kentucky	217	12.56%	Texas	166	8.38%
Louisana	170	9.49%	Utah	359	20.64%
Maine	416	23.92%	Vermont	524	29.45%
Maryland	372	17.20%	Virginia	270	13.61%
Massachusetts	532	22.77%	Washington	492	24.66%
Michigan	424	19.48%	West Virginia	252	14.16%
Minnesota	524	26.24%	Wisconsin	466	25.61%
Mississippi	122	7.95%	Wyoming	351	20.46%
Missouri	280	14.89%			

Table 6

AFDC Benefits Related to Annual Average Pay, by State, 1991

Source: U. S. Department of Labor and Social Security Administration.

A substantial modern literature confirms that differences in benefit levels induce migration.[86] This issue has been particularly intense with respect to ‘migration, with some governors (such as Pete Wilson of California) arguing that welfare benefits induce illegal aliens to cross the border.

A good case can be made that the best way to determine an optimal welfare policy is to experiment at the state and local level with alternatives to the existing system, evaluate the results, and use that information to revamp the system.

States as Laboratories of Welfare Reform

Both common sense and policy research tell us that people will migrate to states and localities that offer public services that meet their tastes.[87] Some areas may wish, as a matter of community tastes, to offer expansive public assistance benefits, while others may believe that welfare should be provided in limited ways, with low benefits and strict eligibility. If "liberal" areas offer generous welfare, and "conservative" areas get income maintenance programs consistent with their tastes and preferences, people will take public services into account in migration decisions.

Some would argue that because we are one nation, citizens should be provided the same safety net in all areas. If poor persons in Mississippi are treated less generously than those in California, this is an injustice that needs remedying, perhaps by entirely administering benefits by the federal government, or by federal mandating of minimum state benefit levels.

According to this perspective, under the current system, states that distribute more generous benefits are punished for their generosity by attracting migrants from other states or countries. Therefore, welfare reform should standardize benefits to prevent states' trying to foist their burdens onto other political jurisdictions by providing low benefits.

While the *possibility* of using the experience of the states to evaluate existing welfare systems is appealing, actual experimentation has occurred in the past few years.

Several states are trying experiments with food stamps, attempting to use cash for benefits, rather than continuing the use of stamps, or going to a debit-card. Both cash and the debit card reduce the stigma of using stamps, and the debit card provides an electronic record of purchases and automatically excludes non-allowable items.

Other states have started tinkering with benefit schedules, trying to use welfare payments to modify behavior. For example, New Jersey pioneered a move to eliminate increased benefits for second or third children born to welfare mothers. Other states (e. g., Ohio) have tied benefits to educational performance, giving greater amounts for good school attendance or grades and reducing them for dropping out of the educational system. Still other states (Massachusetts was an early example) have introduced job training requirements to their welfare systems. Wisconsin has pioneered a Learnfare program requiring teens to stay in school. Others have requested waivers of rules drastically limiting the earnings that recipients may keep while on welfare.

To be sure, not all state initiatives will have positive results. But there is a strong case for learning from the more positive innovations that have been introduced by the states. Presumably, states have a built-in incentive to move to the system that delivers the most bang for the buck. A *laissez-faire* system would allow the states complete freedom to do what they want, with some copayments, as at present, coming from the federal government. This would permit a state to continue the existing system, or move toward other possibilities, including outright elimination of welfare, moving to a negative income tax (expanded earned income tax credit), establishing a program of matching private charity with government dollars in order to promote welfare privatization, and/or simply tinkering with the incentives under such existing programs as AFDC and food stamps.

Conclusion: Suggestions for Genuine Reform

What steps are necessary for meaningful reform of the American welfare system?

- Realistically define what is meant by poverty and the value of government benefits

A precursor to welfare reform must be an honest definition of poverty and an accurate assessment of the value of non-cash benefits. We must not fall into the trap of overestimating the need for a welfare system. It is clear that "official" estimates of poverty in the United States err very seriously on the high side. Focusing exclusively on money income as a measure of poverty, while ignoring or undercounting non-cash benefits has led to an "official" poverty rate that is overstated by as much as one-third. And removing the behavioral poverty population from the "official" poverty rate lowers it by as much as 50 percent. We must recognize that the bulk of "official" poverty stems from people making choices that take them out of the labor market.

- Acknowledge the motives of the existing welfare establishment, especially the bureaucrats.

They have a vested interest in perpetuating the system as it is. We need to be on guard against the standard bureaucratic ploy of excusing past failures on the grounds of inadequate resources. The record shows that massive amounts of public resources devoted to the problem have only worsened it. The urge to seek additional resources is a deep-seated one in the bureaucratic mind and creates a very real risk that this round of welfare reform will lead to further enlargements of the welfare state.

- Decentralizing welfare as much as possible.

There is much innovation in recent initiatives at the state level. This kind of activity should be encouraged. Remember, the individual states have stronger motivations to produce an efficient and cost-effective welfare system. They do not have the blank check of deficit finance that federal politicians have. Consequently, to the extent that individual states are successful in reining in the welfare system, they will be copied elsewhere. To the extent they are not, they will be ignored.

- De-emphasize and reduce the role of income transfers as an anti-poverty strategy.

The income transfer approach has long ago exhausted what little potential it had for reducing poverty in the United States. The overwhelming evidence is that the only effective long-run antipoverty strategy works through the individual person and the labor market, through people facing real-world choices that encourage them to seek jobs, and to not take the "easy" way out through the welfare system. Every decision that is made in reshaping the American welfare system should work to encourage people to seek jobs and discourage them from choosing welfare.

Perhaps most important, income transfers have been shown to have many undesirable side effects, creating a cultural poverty among America's newly emergent underclass. Rising illegitimacy rates have become the norm and with them have come declines in educational performance, rising youth crime rates, and a number of other social pathologies. Collectively, these have produced a general deterioration in the cultural fabric of the poor in America.

The primary feature of the modern underclass is the welfare dependence syndrome. To a substantial extent, being "on welfare" has become just another occupational choice that, like most other "jobs" has both its positive and negative dimensions. For increasing numbers, it is no longer a transitory condition brought on by temporary economic distress, but is rather the ultimate destination in life.

Endnotes

1. Bill Clinton and Al Gore, *Putting People First: How We Can All Change America* (New York: Times Books, 1992), p. 14.

2. National Opinion research Center poll, 1993. Cited in: *National Journal*, March 5, 1994, p. 519.

3. 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.

4. 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, Oc-

tober 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.

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

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

7. *Ibid.*

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

9. 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.

10. *Ibid.*

11. 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.

12. 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 . . . "

13. See 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.: U.S. Government Printing Office, 1986), p. 31, for details.

14. Galbraith, *The Affluent Society* (Boston: Houghton Mifflin Co., 1958) and Harrington, *The Other America* (New York: Macmillan, 1962).

15. Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1962), pp. 9-10.

16. Gallaway and Vedder, *Poverty, Income Distribution . . . , op. cit.*, p. 31.

17. Edward K. Faltermeyer, "A Way Out of the Welfare Mess," *Fortune* (July 1968), pp. 62-67 and 134-37.

18. The measure is per capita federal public aid. See Gallaway and Vedder, *Poverty, Income Distribution . . . , op. cit.*, pp. 36-37 for details.

19. Martin Anderson, *Welfare: the Political Economy of Welfare Reform in the United States* (Stanford, Calif.: Hoover Institution Press, 1978), George Gilder, *Wealth and Poverty* (New York: Basic Books, 1980), and Charles Murray, *Losing Ground* (New York: Basic Books, 1984).

20. Real per capita income data are from *Money Income of Households, Families, and Persons in the United States: 1992*, United States Department of Commerce, Bureau of the Census (Washington, D.C.: U.S. Government Printing Office, 1993). Again, the CPI-U-X1 price index series is used to convert money magnitudes to real.

21. Poverty rate statistics are taken from *Poverty in the United States: 1992*, U.S. Department of Commerce, Bureau of the Census (Washington, D.C.: U.S. Government Printing Office, 1993). Rates are for all persons.

22. Public aid data are from *Social Security Bulletin*, various issues. The Bureau of the Census CPI-U-X1 price index is used to convert the data to real terms

23. Martin Tolchin, "Welfare Revision: Moynihan Seeking to Stand System on Its Head," *The New York Times*, June 12, 1988.

24. Robert Rector, "Combatting Family Disintegration . . . ", *ibid.*

25. *Ibid.*

26. *Ibid.*

27. The early poverty definitions were based on the work of Molly Orshansky. See her "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin*, January 1965, pp. 3-13.

28. For a description of the mix of cash and non-cash welfare spending see Robert Rector, "The Paradox of Poverty: How We Spent $3.5 Trillion Without Changing the Poverty Rate," The Heritage Lectures, No. 410 (Washington, D.C.: The Heritage Foundation, 1992). The one-third figure is on the high side. It counts as welfare spending only programs which produce either a direct cash or

in-kind transfer of income to needy persons. This excludes from consideration spending on urban development, social services, and training designed to improve the income prospects of the needy.

29. The Census Bureau recognizes this problem. For example, their own estimates of underreporting (based on 1987 data) indicate that only 72.8 percent of AFDC benefits are reported in the Current Population Survey. See U.S. Department of Commerce, Bureau of the Census, *Measuring the Effects of Benefits and Taxes on Income and Poverty: 1979 to 1991* (Washington, D.C.: U.S. Government Printing Office, 1992), Appendix F. estimates.

30. *Ibid*., Appendix B.

31. Vee Burke, *Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Participant and Expenditure Data, FY 1988-1990* (Washington, D.C.: Congressional Research Service, The Library of Congress, September 1991). The amount of means-tested cash transfers recorded in the Current Population Survey (CPS) is taken from *Measuring the Effect of Benefits and Taxes on Income and Poverty: 1990,* U.S. Department of Commerce, Bureau of the Census (Washington, D.C.: U.S. Government Printing Office, 1991). The means-tested cash benefits taken into account in the CPS data include the Earned Income Tax Credit as well as the usual sources of cash benefits for the needy.

32. The basic information used in this section is taken from U.S. Department of Commerce, Bureau of the Census, *Poverty in the United States: 1991* (Washington, D.C.: U.S. Government Printing Office, 1992), Tables 14 and 15.

33. Anderson, *op. cit*., Gilder, *op. cit*., and Murray, *op. cit.*

34. Some of the very early studies that demonstrated the operation of work disincentive effects are Carl T. Brehm and Thomas R. Saving, "The Demand for General Assistance Payments," *American Economic Review*, December 1964; Lowell E. Gallaway, "Negative Income Taxes and the Elimination of Poverty," *National Tax Journal*, September 1966; and Hirschel Kasper, "Welfare Payments and Work Incentive: Some Determinants of the Rates of General Assistance Payments," *Journal of Human Resources*, Winter 1968.

35. See, e. g., 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.: U.S. Government Printing Office, 1986), pp. 69-84 and 91-105, respectively.

36. In these studies, we present our notion of a "Poverty-Welfare Curve," which has the attributes of a Laffer-type relationship. 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; Lowell Gallaway and Richard Vedder, *Poverty, Income Distribution, the Family and Public Policy, op. cit*., and Lowell Gallaway and Richard Vedder, *Paying People to be Poor* (Dallas, Texas: National Center for Policy Analysis, 1986). Our findings at that time were quite consistent with Sheldon Danziger and Robert Plotnick's study of the effects of income transfers in reducing the "official" rate of poverty reported in *Children in Poverty*, Committee Print, Committee of Ways and Means, U.S. House of Representatives (Washington, D.C.: U.S. Government Printing Office, 1985), pp. 157-58.

37. For some detailed evidence of the phenomenon at work, see Lowell Gallaway, Richard Vedder, and Robert Lawson, "Why People Work: An Examination of Interstate Variations in Labor Force Participation," *Journal of Labor Research*, Winter 1991, pp. 47-59. This analysis reveals that the proportion of people in a state receiving public aid is positively related to the attractiveness of welfare benefits relative to wages and that the labor force participation rate among states is smaller the larger the proportion of people receiving public aid. For further confirmation of these linkages, see M. 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, August 1993).

38. For a discussion of the concept of the "natural" rate of unemployment, see our *Out of Work: Unemployment and Government in Twentieth Century America* (New York: Holmes and Meier, 1993), Chapter 13.

39. U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 182RD, *Measuring the Effect of Benefits and Taxes on Income and Poverty: 1979 to 1991* (Washington, D.C.: U.S. Government Printing Office, 1992. The material in this section is taken from Lowell Gallaway, *The Effectiveness of Income Transfers in Reducing Poverty*, Minority Staff Study, Joint Economic Committee of Congress, December 29, 1992.

40. Income from a particular source is calculated using Table 1, *ibid*. That table provides information on the number of households receiving that kind of income and the mean amount of such income received. In the case of a public policy created income transfer, the amount of income received

also measures the cost to the general public of the program. Thus, the cost of the EITC is the amount of income transferred to those who benefit from it. Such income is properly viewed as a negative tax. We have chosen to express this cost on a per capita basis in order to control for the impact of population growth on the volume of program expenditures.

41. See, for example, Christopher Frenze, *Income Mobility and the U.S. Economy: Open Society or Caste System*, Minority Staff Study, Joint Economic Committee of Congress, January 1992, and *Income Mobility and Economic Opportunity*, Minority Staff Study, Joint Economic Committee of Congress, June 1992.

42. Isabel Sawhill and Mark Condon, "Is U.S. Inequality really Rising?" *Policy Bites* (Washington, D.C.: Urban Institute, 1992).

43. 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.: U.S. Government Printing Office, 1991).

44. See Marvin N. Olasky, *The Tragedy of American Compassion* (Washington D.C.: Regnery Gateway, 1992) or his "Beyond the Stingy Welfare State," *Policy Review*, Fall 1990.

45. Burton Abrams and Mark Schmitz, for example, have estimated that each one dollar of added publicly financed social welfare spending lowers private charitable contributions by 30 cents. See their "The Crowding-Out Effect of Governmental Transfers on Private Charitable Contributions: Cross-Section Evidence," *National Tax Journal*, December 1984.

46. Private giving could be enhanced by tax credits. For an interesting proposal for making a smooth transition from public to private provision for welfare, see John H. Fund, "Welfare: Putting People First," *Wall Street Journal*, June 14, 1994, p. A14.

47. For a survey of the earlier literature, see Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, March 1992.

48. Marjorie Honig, "AFDC Income, Recipient Rates, and Family Dissolution," *Journal of Human Resources*, Summer 1974.

49. See Sheldon Danziger et al., "Work and Welfare as Determinants of Female Poverty and Household Headship," *Quarterly Journal of Economics*, August 1982; David Ellwood and Mary Jo Bane, "The Impact of AFDC on Family Structure and Living Arrangements," in Ronald Ehrenberg (ed.), *Research in Labor Economics*, Vol. 7 (Greenwich, CT: JAI Press, 1982), and Robert M. Hutchens, George Jakubson, and Saul Schwartz, "AFDC and the Formation of Subfamilies," *Journal of Human Resources*, Fall 1989. The Hutchens study is somewhat mixed in its findings.

50. See Gary Becker, *A Treatise on the Family* (Cambridge, MA: Harvard University Press, 1981) for the standard theoretical treatment.

51. 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.

52. The Gini coefficient within female-headed households was .449, compared with .366 for married-couple families. A high Gini indicates greater inequality.

53. Some states, notably New Jersey, have received waivers from federal rules requiring such incremental payments.

54. See our monograph published by the Joint Economic Committee of Congress, *Poverty, Income Distribution, the Family and Public Policy, op. cit.*, pp. 79-92 for a discussion of this and other points made in this chapter. We anticipate much of the current discussion and offer evidence supportive of the view that welfare promotes dysfunctional living arrangements, divorce and illegitimacy.

55. M. Anne Hill and June O'Neill, *Underclass Behaviors . . . , op. cit.*

56. C.R. Winegarden, "AFDC and Illegitimacy Ratios: A Vector Autoregressive Model," *Applied Economics*, March 1988.

57. See Shelly Lundberg and Robert D. Plotnick, "Adolescent Premarital Child-bearing: Do Opportunity Costs Matter?" Discussion Paper no. 90-23 (Seattle: University of Washington, Institute for Economic Research, 1990). See also Plotnick's, "Welfare and Out-of-Wedlock Childbearing: Evidence from the 1980s," *Journal of Marriage and the Family*, August 1990.

58. *Losing Ground, op. cit*. See also his excellent survey article, "Welfare and the Family: The U.S. Experience," *Journal of Labor Economics*, January 1993, and his "Does Welfare Bring More Babies?" *The American Enterprise*, January / February 1994.

59. *Statistical Abstract of the United States, 1993*, p.78.

60. One academic who saw what was happening very early was Daniel Patrick Moynihan. See his *The Negro Family: The Case for National Action* (Washington, D.C.: U.S. Department of labor, March 1965).

61. Perhaps the best study on the important of parental involvement is James S. Coleman and Thomas Hoffer, *Public and Private High Schools: The Impact of Communities* (New York: Basic Books, 1977.)

62. John E. Chubb and Terry M. Moe, *Politics, Markets and America's Schools* (Washington D.C.: The Brookings Institution, 1990), especially pp. 105-111.

63. *Ibid*., p. 108.

64. *Ibid*., p. 126.

65. Luther M. Boggs, Jr., Richard Vedder, and Alfred E. Eckes, "Testing and Educational Achievement: Ohio and the Nation" (Ohio University: Contemporary History Institute, September 1992).

66. *Ibid*., pp. 22-39.

67. This finding is consistent with most other studies. See Eric A. Hanushek, "The Economics of Schooling," *Journal of Economic Literature*, September 1986, for a review of the literature.

68. *Op. cit*.

69. Put in its simplest form, with some minor modifications the conditions that must be satisfied for a single-parent female to receive the standard package of welfare benefits are: (1) She must not work; and (2) She must not marry an employed male. See Robert Rector, "Combatting Family Disintegration, Crime and Dependence: Welfare Reform and Beyond," Backgrounder (Washington, D.C.: The Heritage Foundation, April 8, 1994), pp. 7-8.

70. *Ibid*. Consistent with the Hill and O'Neill analysis is Douglas Smith and G. Roger Jarjoura, "Social Culture and Criminal Victimization," *Journal of Research in Crime and Delinquency*, February 1988.

71. Hill and O'Neill, *op. cit*., and Smith and Jarjoura, *op. cit*.

72. For examples of various impacts on children born out of wedlock and / or reared in a single-parent family, see Deborah Dawson, "Family Structure and Children's Health and Well-being: Data from the 1988 National Health Interview Survey on Child Health," Annual Meeting, Population Association of America, Toronto, May 1990, and *Family Structure and Children's Health: United States: 1988* (Hyattsville, Maryland: U.S. Department of Health and Human Services, Centers for Disease Control, National Center for Health Statistics, June 1991); Nicholas Davidson, "The Daddy Dearth," *Policy Review*, Winter 1990; and Marybeth Shinn, "Father Absence and Children's Cognitive Development, *Psychological Bulletin*, vol. 85, No. 2(1978). These are summarized quite well by Rector, "Combatting Family Disintegration ....," *op. cit*.

73. These are contained in *Message from the President of the United States Transmitting a Draft of Proposed Legislation Entitled "Work and Responsibility Act of 1994*," House Document #103-273 (U.S. Government Printing Office, Washington D.C., June 21, 1994). Further references will be to the Administration proposal. The basics of the proposal were outlined in an earlier press release of June 14, 1994.

74. Warren Brookes, "Chipping Away at ET's Image," syndicated newspaper column, reprinted in *Workfare vs. Welfare*, Hearing, Subcommittee on Trade, Productivity, and Economic Growth, Joint Economic Committee of Congress, Second Session, April 23, 1986 (Washington D.C.: United States Government Printing Office, 1987) pp. 67-68.

75. As estimated by Robert Rector, "How Clinton's Bill Extends Welfare as We Know It" (Washington D.C.: Heritage Foundation, August 1, 1994), p. 5.

76. *Ibid*.

77. Administration proposal, p. 250.

78. *Ibid*., p. 38.

79. Actually, there could be increases. The proposal allows the individual states to provide welfare benefits above and beyond the value of the combination of wages and the earnings supplement. See Administration proposal, pp. 250-251.

80. Data from the House Ways and Means Committee, *Green Book: 1993*, indicate that average welfare benefits (cash, food assistance, and medical care) total $240 per week, of which $97 is in the form of cash.

81. These probabilities represent the total population that might be sufficiently adversely affected by the operation of the WORK program that they would leave the welfare system. The actual numbers who will depart the welfare rolls are likely to be far less than this.

82. The results of the Manpower Demonstration Research Corporation project, known as "New Chance," were summarized in the *New York Times*. At the time of the writing of this study, the final report had not yet been published. See "Study Finds that Education Does Not Ease Welfare Rolls," *New York Times*, June 22, 1994, p. A-16, cols. 1-2.

83. Rector, *op. cit.*, p. 7.

84. In fact, on balance it probably makes things worse in that it phases out the AFDC-UP (AFDC for two-parent families) work requirements that finally went into effect this year. According to the Administration proposal, they disappear after 1998.

85. Rector, *op. cit.*, p. 10.

86. See Richard Cebula, Robert Kohn, and Richard Vedder, "Some Determinants of Interstate Migration of Blacks, 1965-1970," *Western Economic Journal*, December 1973. For a summary of some of the studies, see Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, March 1992. For a representative study, see Paul Peterson and Mark Rom, "American Federalism, Welfare Policy, and Residential Choices," *American Political Science Review*, September 1989.

87. Charles Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy*, October 1956.

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