
BRIEFING
PAPER:

Ending the Welfare State

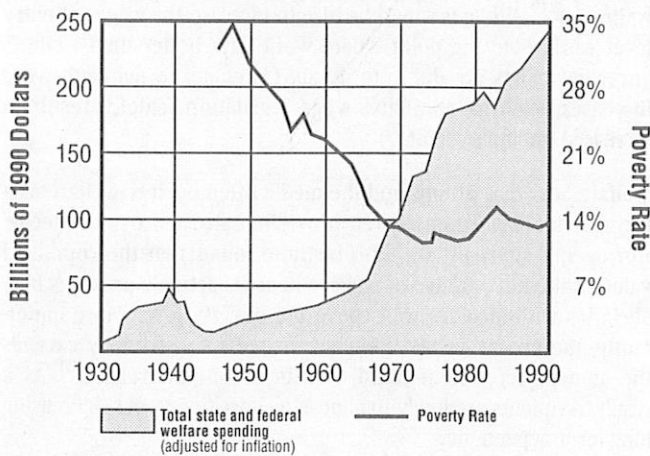
*How to Promote Opportunity,
Work, & Individual Responsibility*



Welfare and Poverty

What has America received in exchange for this massive investment in anti-poverty spending? Primarily more poverty. As the chart below shows, the greatest strides in reducing poverty in America occurred before the advent of the social-welfare state. Indeed, since 1973, poverty has actually increased, despite the continued growth in social-welfare spending.³

Social Welfare Spending and Poverty



Source: Robert Rector, "Rethinking Welfare after the L.A. Riots," *Youth Policy*, December 1992.

There is evidence that welfare itself may prevent people from moving out of poverty. Professors Richard Vedder and Lowell Galloway of the University of Ohio, for example, found that, holding other factors constant, individuals below the poverty level who do not receive welfare are two and a half times more likely to be out of poverty the following year than individuals who do receive welfare.⁴

Moreover, welfare dependence is increasingly intergenerational. The rate of AFDC dependence for children raised on AFDC is nearly seven times higher than their non-AFDC counterparts.⁵

Welfare and Family

No responsible discussion of welfare can ignore the impact of the welfare state on the American family. The evidence is clear that our current welfare system has contributed to the break-up of the family and led to an increase in out-of-wedlock births.⁶ In 1960, only 5.3 percent of all births were out-of-wedlock. Among whites, only 2.3 percent were out-of-wedlock, while the out-of-wedlock rate among blacks was 23 percent. By 1990, 30 percent of all births were out-of-wedlock. The rate among whites had increased to 23 percent, and among blacks had skyrocketed to 68 percent.⁷

This growing rate of out-of-wedlock births has serious consequences that cannot be ignored. Having a child out of wedlock often means a lifetime in poverty. Approximately 30 percent of all welfare recipients start because they have an out-of-wedlock birth.⁸ The trend is even worse among teenage mothers. Half of all unwed teen mothers go on welfare within one year of the birth of their first child; 77 percent are on welfare within five years of the child's birth.⁹ Nearly 55 percent of AFDC, Medicaid, and food stamp expenditures are attributable to families begun by a teen birth.¹⁰ This does not count the cost of such other social programs as special education, foster care, and public housing subsidies.

Moreover, once on welfare, these women find it very difficult to get off. While the average length of time spent on welfare is relatively short, generally two years or less, 65 percent of persons enrolled in the program at any one time have been on the program for eight years or longer.¹¹ Single mothers make up the largest portion of these long-term recipients. Single women average 9.33 years on welfare and make up 39.3 percent of all recipients who are on welfare for ten years or longer.¹²

The non-economic consequences of out-of-wedlock births are equally stark. There is strong evidence that the absence of a father increases the probability that a child will use drugs and engage in criminal activity.

The evidence of a link between welfare and out-of-wedlock births is overwhelming. Recently, a study for the U.S. Department of Health and Human Services found that, holding constant a wide range of

¹ Testimony of Robert Rector, senior policy analyst, The Heritage Foundation, before the U.S. Senate Finance Committee, March 9, 1995. Approximately 72 percent of this money comes from the federal government, 28 percent from state and local governments.

² U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-60, no. 175, "Poverty in the United States: 1992" (Washington: Government Printing Office, 1993).

³ Robert Rector, "Rethinking Welfare After the L.A. Riots," *Youth Policy*, December 1992.

⁴ Richard Vedder and Lowell Galloway, "The War on the Poor," Institute for Policy Innovation, Lewisville, Tex., June 1992.

⁵ Greg Duncan and Martha Hill, "Welfare Dependence Within and Across Generations," *Science*, January 29, 1988, pp. 466-71.

⁶ By discussing the link between social-welfare programs and the problems associated with out-of-wedlock births the Libertarian Party does not intend to endorse forced or government-induced marriage. Rather, we condemn a government policy that artificially influences marriage and child-bearing choices.

⁷ Centers for Disease Control and Prevention, National Center for Health Statistics, "Births to Unmarried Mothers: United States," June 1995.

⁸ U.S. House of Representatives, Committee on Ways and Means, *1994 Green Book: Overview of Entitlement Programs* (Washington: Government Printing Office, 1994.)

⁹ *Ibid.*

¹⁰ Center for Population Options, "Teenage Pregnancy and Too-Early Childbearing: Public Costs, Personal Consequences," 1990.

¹¹ Mary Jo Bane and David Ellwood, "The Dynamics of Dependence: The Route to Self-Sufficiency," U.S. Department of Health and Human Services, June 1983.

¹² David Ellwood, "Targeting Would-Be Long-Term Recipients of AFDC," U.S. Department of Health and Human Services, June 1988.

Perhaps this is why 68.6 percent of welfare recipients report that they are not actively seeking work.²² Other studies show that as welfare benefits increase women are more likely to leave the labor force and enroll in welfare programs instead.²³ Any welfare reform proposal must recognize that individuals are unlikely to move from welfare to work as long as welfare pays as well or better than working.

Studies confirm welfare as a disincentive for work. The Seattle Income Maintenance Experiment and the Denver Income Maintenance Experiment (SIME/DIME) were a series of controlled experiments conducted between 1971 and 1978 to examine the effect of guaranteed income supports on the poor. Researchers concluded that every dollar of subsidy reduced labor and earnings by 80 cents. The number of hours worked declined by 43 percent for young unmarried males, and 33 percent among males who later married. Unmarried women with children reduced work by 25 percent. The length of time spent outside the workforce during unemployment increased by nine weeks (27 percent) by unmarried men, and 56 weeks (60 percent) by single mothers.²⁴

Welfare and Crime

Recently, the Maryland NAACP released a report concluding that "the ready access to a lifetime of welfare and free social service programs is a major contributory factor to the crime problems we face today."²⁵ Dr. June O'Neill's research for the U.S. Department of Health and Human Services showed that a 50 percent increase in the monthly value of combined AFDC and food stamp benefits led to a 117 percent increase in the crime rate among young black men.²⁶

Welfare contributes to crime in several ways. First, as already noted, children from single-parent families are more likely to become involved in criminal activity. As welfare contributes to the rise in out-of-wedlock births (*see above*), it concomitantly contributes to the associated criminal activity.

Secondly, welfare leads to increased crime by contributing to the marginalization of young black males in society. As George Gilder, author of *Wealth and Poverty*, has noted, "The welfare culture tells the man he is not a necessary part of the family," a process he describes as being "cuckolded by the compassionate state."

Neither Conservatives nor Liberals Can Reform Welfare

From President Clinton to Newt Gingrich there has been a call to "end welfare as we know it." The debate in Congress over welfare reform has been noisy and intense. However, none of the proposals currently being advanced by either conservatives or liberals is likely to fix the fundamental problems with our welfare system.

One program very popular among conservatives is "workfare," the

requirement that welfare recipients perform public service jobs in exchange for benefits. The belief is that such jobs will give the recipient both work experience and incentive to get off of welfare.

But the type of jobs envisioned under most workfare programs are unlikely to give recipients the work experience or job skills necessary to find work in the private sector. There seems little difference, therefore, between this type of work program and the type of government-guaranteed make-work jobs program traditionally decried by conservatives.

As to a work requirement providing an incentive for recipients to get off of welfare, this idea is based on the stereotyped belief that welfare recipients are essentially lazy, looking for a free ride. But, as illustrated above, the choice to go on welfare is more likely a result of a logical conclusion that welfare pays better than low-wage work. Since public service jobs do little to change this earning differential, they are unlikely to convince many people to leave welfare. The Manpower Demonstration Research Corporation conducted a review of workfare programs across the country and found few, if any, employment gains among welfare participants. The general consensus of literature on the issue is that "mandatory work experience programs produce little long-term gain."²⁷

Ultimately, workfare is a response to the gut feeling that many have about relief payments for the poor: no one should get something for nothing. But, we should not forget that workfare's public service jobs are not free—indeed, they look rather expensive to the hard-pressed taxpayer. The Congressional Budget Office estimates that each public service job created costs at least \$6,000 more annually than current welfare benefits.

Conservatives have also focused on the concept of block grants which combine funding for a variety of welfare programs into single funding sources with the details of program management left to the states. However, such block grants are almost certain to continue to have numerous strings attached. Further, there is something less than clear logic in the idea of sending money from the states to Washington, having Washington take a cut off the top, then sending the money back to the states.

Meanwhile on the left, a small core of unreconstructed liberals argues that we have failed to provide sufficient funding to make existing social-welfare programs work properly. They call for an expansion of existing programs and new investments in job training and child care.

²² 1994 Green Book.

²³ Hill and O'Neill.

²⁴ Gregory Christiansen and Walter Williams, "Welfare, Family Cohesiveness and Out-of-Wedlock Births," in *The American Family and the State* (San Francisco: Pacific Research Institute for Public Policy Research, 1986).

²⁵ John L. Wright, Marge Green, and Leroy Warren, Jr., "An Assessment of Crime in Maryland Today," Maryland State Conference of Branches, NAACP, February, 1994.

²⁶ Hill and O'Neill, p. 14.

²⁷ James Heckman, Rebecca Roselius, and Jeffrey Smith, "U.S. Education and Training Policy: A Reevaluation of the Underlying Assumptions Behind the 'New Consensus,'" American Enterprise Institute, March 7, 1994, pp. 33-34.

half of the families receiving means-tested benefits are not poor.³⁴ Thus, a student may receive food stamps, while a homeless man with no mailing address goes without. Private charities are not bound by such bureaucratic restrictions.

Finally, private charity has a better record of actually delivering aid to recipients. With all the money being spent on federal and state social-welfare programs, surprisingly little money actually reaches recipients. In 1965, 70 cents of every dollar spent by the government to fight poverty went directly to poor people. Today, 70 cents of every dollar goes not to poor people, but to government bureaucrats and others who serve the poor.³⁵ Few private charities have the bureaucratic overhead and inefficiency of government programs.

3. Tear Down Barriers To Entrepreneurism and Economic Growth

Almost everyone agrees that a job is better than any welfare program. Yet for years this country has pursued tax and regulatory policies that seem perversely designed to discourage economic growth and reduce entrepreneurial opportunities. Government regulations and taxes are steadily cutting the bottom rungs off the economic ladder, throwing more and more poor Americans into dependency.

Someone starting a business today needs a battery of lawyers just to comply with the myriad of government regulations from a virtual alphabet soup of government agencies: OSHA, EPA, FTC, CPSC, etc. Zoning and occupational licensing laws are particularly damaging to the type of small businesses that may help people work their way out of poverty. In addition, government regulations such as minimum wage laws and mandated benefits drive up the cost of employing additional workers. For a typical small business the tax and regulatory burden for hiring an additional worker is more than \$5,400.³⁶ At best, that is \$5,400 that is not going to the worker. At worst, the cost prevents the hiring of the worker at all.

Economist Thomas Hopkins estimates that the current annual cost to the economy of government regulations is more than \$500 billion.³⁷ That is \$500 billion that cannot be used to create jobs and lift people out of poverty.

At the same time taxes have both diverted capital from the productive economy and discouraged job-creating investment. Harvard economist Dale Jorgenson estimates that every dollar of taxes raised by the federal government results in a net loss to the economy of 18 cents, an annual loss of \$200 billion per year from our Gross National Product.³⁸ Moreover, tax rates are already so high that new taxes will cause even greater losses to the economy. Jorgenson estimates, for example, that the 1994 Clinton tax hike will cost the economy more than \$100 billion over 5 years.³⁹

These figures do not include the estimated \$600 billion that the American economy loses every year because of the cost of complying with our dizzyingly complex tax system. In 1990 American workers and businesses were forced to spend more than 5.4 billion man-hours figuring out their taxes and filing the paperwork. That was more man-hours than was used to build every car, truck, and van manufactured in the United States.⁴⁰

As a starting point for reform, we should repeal those taxes and regulations that destroy entrepreneurship and opportunity. That would represent real compassion for the poor.

4. Reform Education

There can be no serious attempt to solve the problem of poverty in America without addressing our failed government-run school system.

Analysts as diverse as Clinton administration Labor Secretary Robert Reich and social scientist Charles Murray have warned that our society is increasingly becoming divided between those with the skills and education to function in our increasingly competitive global economy and those without such skills and education. For example, the poverty rate for families where at least one member finished college is just over two percent; it is 10.5 percent for high school graduates; and 24.2 percent for those who did not finish high school.⁴¹

³⁴ U.S. Department of Commerce, Bureau of the Census, "Characteristics of Households and Persons Receiving Selected Noncash Benefits," Washington, DC, 1993.

³⁵ Cited by Robert Woodson, "Is the Black Community a Casualty of the War on Poverty," Heritage Foundation Lectures, February 6, 1990. It is important to note that the entire 70 percent figure is not government administrative overhead. This figure also includes government payments to the nonpoor on behalf of the poor. For example, Medicaid payments go to doctors. Housing subsidies are frequently paid directly to landlords. U.S. Domestic Policy Council, Low-Income Opportunity Working Group, "Up From Dependency," Inter-Agency, Low-Income Opportunity Advisory Board, 1986. The 30/70 split has been confirmed by other local studies: "New York City's Poverty Budget," Community Service Society of New York, 1984, and "The Cook County, Illinois, Welfare System," Northwestern University, Center for Urban Affairs and Policy Research, 1991.

³⁶ James Gwartney and Richard Stroup, *What Everyone Should Know About Economics and Prosperity* (Tallahassee: James Madison Institute, 1993).

³⁷ Thomas D. Hopkins, "The Cost of Federal Regulations," *Journal of Regulation and Social Costs*, March 1992, p. 25.

³⁸ Dale W. Jorgenson and Kun-Young Yun, "The Excess Burden of Taxation in the United States," *Journal of Accounting, Auditing, and Finance*, September 1990.

³⁹ *Ibid.*

⁴⁰ James L. Payne, "Costly Returns: The Burdens of the U.S. Tax System" (San Francisco: Institute for Contemporary Studies Press, 1993).

⁴¹ Christopher Jencks and Paul Peterson, ed., *The Urban Underclass*, (Washington: Brookings Institution, 1991).