26. Welfare

> ***Congress should***
>
> - end all federal funding of welfare and
> - tear down barriers to economic growth and entrepreneurship.

From across the political and ideological spectrum, there is now almost universal acknowledgement that the American social welfare system has been a failure. Since the start of the War on Poverty in 1965, the United States has spent more than $6 trillion trying to ease the plight of the poor. What we have received for that massive investment is—primarily—more poverty.

Our welfare system is unfair to everyone: to taxpayers, who must pick up the bill for failed programs; to society, whose mediating institutions of community, church, and family are increasingly pushed aside; and most of all to the poor themselves, who are trapped in a system that destroys opportunity for them and hope for their children.

Consider the results of our welfare system:

- **Illegitimacy.** In 1960 only 5.3 percent of births were out of wedlock. Today nearly 32 percent of births are illegitimate. Among blacks, the illegitimacy rate is over two-thirds. Among whites, it tops 23 percent. There is strong evidence that directly links the availability of welfare to the increase in out-of-wedlock births.
- **Dependence.** Nearly 65 percent of the people on welfare at any given time will be on it for eight years or longer. Moreover, welfare is increasingly intergenerational. Children raised in families on welfare are seven times more likely to become dependent on welfare than are other children.
- **Crime.** The Maryland NAACP recently concluded 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.’’

> Welfare contributes to crime by destroying family structure and breaking down the bonds of community. Moreover, it contributes to the social marginalization of young black men by making them irrelevant to the family. Their role has been supplanted by the welfare check.

The 1996 Welfare Reform

Faced with the welfare state's dismal record, Congress finally took the first tentative steps toward eventual welfare reform in 1996. However, the 1996 welfare reform legislation falls far short of the reform needed to truly end this destructive program.

The law does contain one important reform: it ends welfare's status as an entitlement. Every individual who meets an entitlement program's eligibility criteria automatically receives the program's benefits. Spending on the program is not subject to annual appropriation but rises automatically with the number of people enrolled.

Ending welfare's entitlement status has two important effects. First, it allows states to impose a variety of conditions and restrictions on receipt of benefits. Second, it makes welfare spending subject to annual appropriation. Therefore, Congress can assert greater control over the growth in spending. However, except for that change, the law is woefully inadequate, containing numerous loopholes that will allow large numbers of welfare recipients to escape its work requirements and time limits.

At the heart of the new law is a plan to shift control of welfare to the states through block grants. The theory is that, while the federal government will continue to provide funding, states will be free to experiment more widely. However, 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, and then sending the money back to the states.

In addition, the history of block grants is not a pretty one. Tales of mismanagement, waste, and abuse in past or existing block grant programs are legion. Most audits have shown little or no increase in administrative efficiency. Although supporters of block granting welfare have suggested that administrative savings could be as high as 20 percent of program costs, past block grant programs have seldom achieved savings of more than 5 percent. And the tensions between state and federal government often changed into a battle between local and state governments.

Block grants reduce accountability by separating the revenue collector from the spender of the money—never a wise practice. Congress can blame the states for not spending the money wisely, while the states can blame Congress for failing to provide enough money to do the job.

Moreover, as Norman Ornstein of the American Enterprise Institute has pointed out, from Richard Nixon's ''New Federalism'' to Ronald Reagan's ''New New Federalism'' to Newt Gingrich's ''New New New Federalism,'' the federal government has talked about shifting power to the states, giving them more money and more flexibility. But reality has seldom matched the rhetoric. Reality has usually meant less money and less flexibility.

That pattern appears to hold in the new law as well. The block grants have numerous federal ''strings'' and other restrictions. Indeed, in many cases, Congress has simply replaced liberal mandates with conservative ones.

The success of the 1996 welfare reform legislation remains uncertain. Although welfare rolls have declined significantly in nearly every state, there has not yet been sufficient analysis to determine whether that decline is due to the 1986 reforms, reforms implemented earlier under federal waivers, or simply the good economy. Indeed, since most states did not implement reforms under the 1996 law until July 1997, it seems unlikely that the 1996 act has yet had a significant impact—for good or ill.

The Clinton administration has sought to undermine the 1996 welfare reforms in several ways. First, it has succeeded in convincing Congress to restore many welfare benefits to noncitizens. Second, the Labor Department has ruled that welfare recipients participating in workfare jobs must be considered employees under federal law. That has potentially opened state governments to lawsuits demanding that workfare participants be paid minimum wage, allowed family leave, be covered under workers' compensation, and so on. Congress should beware of any attempts to weaken the 1996 reforms.

End All Federal Funding of Welfare

The 1996 welfare reform should not be the last word in fixing our failed welfare system. However, most truly useful welfare reforms can and should be made by the states without new federal rules and regulations. Congress can be most helpful by giving the states still more freedom to control their own welfare programs.

Instead of making block grants, Congress should eliminate federal funding for the entire social welfare system for those individuals able to work, including the new block grants for Temporary Assistance to Needy

Families (which replaced Aid to Families with Dependent Children), as well as Medicaid, food stamps, housing assistance, and the rest. That can be done by reviving a Reagan-era reform known as ''turn-backs,'' by which specific federal aid programs (in this case welfare programs) are terminated and specific federal taxes are repealed. Responsibility for both collecting the revenue and spending the money is turned back to state and local governments. Turn-backs would eliminate the federal middleman altogether.

States that wished to continue welfare programs would be free to do so, but they would be required to finance those programs themselves. However, it would be preferable for most to follow the federal government's lead and return charity to the private sector, which is far better able to provide for the needs of the poor.

Tear Down Barriers to Economic Growth and Entrepreneurship

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 dependence.

Someone starting a business today needs a battery of lawyers just to comply with the myriad government regulations from a virtual alphabet soup of government agencies: OSHA, EPA, FTC, CPSC, and so on. Zoning and occupational licensing laws are particularly damaging to the types 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. Economist Thomas Hopkins has estimated that the current annual cost to the economy of government regulations is more than $600 billion. That is $600 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 costs the economy an additional 18 cents, leading to an annual loss of $200 billion from our gross national product. 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 five years.

Those 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 were used to build every car, truck, and van manufactured in the United States.

A 1993 World Bank study of 20 countries found that countries with low taxes had higher economic growth, more investment, greater increases in productivity, and faster increases in living standards than did high-tax nations. Perhaps that should be a lesson for the United States. Elsewhere in this book there are detailed discussions of priorities for regulatory and tax relief. But as a general matter, instead of worrying about how to make poverty more comfortable, the 106th Congress should concentrate on tearing down the regulatory and tax barriers that help trap people in poverty.

Conclusion

In 1996 Congress took the first tentative steps on the road to welfare reform, but that is not enough. Congress should build on its efforts and end federal involvement in charity, returning responsibility for caring for the poor first to the states, then to the private sector. The civil society, through private charitable activity, is far better at meeting the real needs of the poor. At the same time, Congress should continue to tear down barriers to economic growth and entrepreneurship.

Suggested Readings

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Murray, Charles. *Losing Ground: American Social Policy 1950–1980.* New York: Basic Books, 1984.

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Olasky, Marvin. *The Tragedy of American Compassion.* New York: Basic Books, 1992.

Tanner, Michael. *The End of Welfare: Fighting Poverty in the Civil Society.* Washington: Cato Institute, 1996.

Tanner, Michael, Stephen Moore, and David Hartman. ''The Work vs. Welfare Trade-Off: An Analysis of the Total Level of Welfare Benefits by State.'' Cato Institute Policy Analysis no. 240, September 19, 1996.

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