Welfare Reform

California maintains a robust social safety net. On a combined basis, federal and state anti-poverty programs spend more than $100 billion every year in California, almost $15,000 for every poor person living in the state. Overall, more than 100 federal, state, or local anti-poverty programs provide some level of benefits to Californians. Roughly 70 of these provide benefits to individuals, while the others target low-income communities. Many of these programs are small and narrowly targeted, but others are extensive and cover large numbers of Californians.

Generally, the state's social welfare programs for individuals fall into four silos (see Table 5.1):

1. Cash assistance (California Work Opportunities and Responsibility to Kids [CalWORKs]; the state's implementation of the federal Temporary Assistance to Needy Families program [TANF]; the earned-income tax credit [EITC]; and California EITC [CalEITC], a supplement to the federal program)
2. Food and nutritional assistance (CalFresh, the state's implementation of the federal Supplemental Nutrition Assistance Program [SNAP, or food stamps]; the Special Supplemental Program for Women, Infants, and Children [WIC]; and school lunch programs)
3. Health care and health insurance (Medi-Cal, the state implementation of Medicaid; and Affordable Care Act subsidies)
4. Education and job training

Reliable estimates of how many Californians receive some form of government assistance are difficult to come by, in part because individuals can participate in multiple programs and because recordkeeping is decentralized. However, roughly 13 million Californians, approximately a third of the state's population and over half of the state's children, are enrolled in Medi-Cal.[1] Approximately 4.6 million Californians participate in CalFresh, including more than a quarter of Californian children.[2]

Most studies suggest that social welfare spending reduces poverty rates from their projected levels in the absence of those programs. For instance, the Stanford Center on Poverty and Inequality research estimates that without social welfare programs, California's poverty rate would be roughly 12 percentage points higher and that the "deep poverty" rate would be nearly three times as high.[3] As Rebecca Blank of the University of Wisconsin concludes after surveying the available literature, "transfer programs unambiguously make people less poor."[4] This should not really be a surprise: giving people money or the equivalent generally means that they have more money.

But while mostly successful in reducing material poverty, California's welfare system is much less successful at reducing dependency and assisting low-income Californians in escaping poverty.

Therein lies the fundamental failure of California's anti-poverty efforts: the state has focused on the alleviation of poverty, making sure that people have food, shelter,

Table 5.1
California social welfare programs

Category of assistance	Programs
Cash assistance	California Work Opportunity and Responsibility to Kids, Temporary Assistance for Needy Families, earned-income tax credit (EITC), and CalEITC
Food and nutritional assistance	CalFresh, Supplemental Nutrition Assistance Program, Special Supplemental Program for Women, Infants, and Children, and school lunch programs
Health care and health insurance	Medi-Cal, Medicaid, and subsidies under the Affordable Care Act
Education and job training	CalJOBS and welfare-to-work program

and other basic needs. That may be a necessary part of an anti-poverty policy, but it is far from sufficient. A truly effective anti-poverty program would not just alleviate the symptoms of poverty but would eradicate the disease itself. We should seek to ensure not only that people are fed and housed but that they are able to rise as far as their talents can take them. We focus too much on poverty and not enough on prosperity.

"By focusing too narrowly on the material aspects of poverty, we neglect the more important necessities for human flourishing."

President Lyndon B. Johnson called for doing more than simply fighting material poverty. Johnson created the war on poverty not only to "relieve the symptom of poverty, but to cure it and, above all, to prevent it." Yes, it sought to meet the "basic needs" of those in poverty, but more importantly, it strove to "replace despair with opportunity."[5] Yet by focusing too narrowly on the material aspects of poverty, we neglect the more important necessities for human flourishing. Our tax and spending policies should be better designed to enable every person to become a fully actualized being, capable of realizing success as they define it.

Of course, none of us is an island. We interact with others all the time, and we all survive and prosper because of that interaction. In addition, all of us will experience times of greater dependency, such as during childhood or old age. In times of distress, our community, private charity, and possibly even the government may need to intervene.

Yet government intervention will always be a second-best solution. Of necessity, centralized welfare programs reduce an individual's autonomy, self-ownership, and choices. There is a reason why, even in cases of individuals with mental and physical disabilities, we attempt to maximize everyone's self-sufficiency and ability to manage their own lives. Increasingly we find that programs once intended to be stopgap or emergency measures have become vectors for long-term, even multigenerational, dependency.

People who are poor themselves recognize how the existing welfare system fails to address their larger needs. According to a 2016 *Los Angeles Times* poll, conducted with the American Enterprise Institute, 71 percent of individuals living below the poverty level believed then that the government lacks the knowledge to eliminate poverty, even if it is willing to spend whatever is necessary. Moreover, the poll shows that people living below the poverty level were split evenly (at 41 percent) on the question of whether the welfare system helps people escape from poverty or encourages people to stay poor. Finally, by a 48 percent to 41 percent margin, low-income people believed that people who have been poor for a long time are likely to remain poor despite government assistance. Indeed, people with incomes above the poverty level were more likely to have a favorable impression of the welfare system and government's efficacy in alleviating poverty than were low-income people.[6]

A second poll, conducted by the Cato Institute in 2019, found similar results. Nationwide, 63 percent of welfare recipients said that the war on poverty has failed. And 76 percent of welfare recipients agreed that economic growth would do more to reduce poverty than an expansion of traditional social welfare programs.[7]

In proposing a better way to fight poverty, we should not blindly support cutting programs for the sake of cutting them. Nor should we assume that what California is doing now is working and that the state should simply do more of it. Rather, we should ask what actions can be taken to ameliorate the suffering of those living in poverty at least as well as existing efforts while also creating the conditions that enable people to live more fulfilled and self-directed lives. Is it possible to achieve or even expand on the reductions in material poverty that we have seen without settling for the negative side effects accompanying government poverty programs today? Can we fight poverty in a way that is compatible with the economic growth and with reducing poverty, including generational poverty, in the future? Finally, can we fight poverty in a way that provides people a greater degree of empowerment over their lives?

This report provides recommendations for achieving these goals in ancillary policy areas—tackling issues such as

housing, criminal justice reform, education, and economic inclusion, all of which are designed to improve opportunities for Californians in poverty and in general. The goal is to make safety net and social welfare programs far less necessary. This section is devoted to those areas within the state's social welfare system that are ripe for reform.

RECOMMENDATIONS

Abolish Asset Tests for CalWORKs and Other Programs

Too often, the importance of savings and wealth accumulation gets neglected in the context of poverty discussions. The logic behind this omission is obvious: immediate needs for food, shelter, and so on must be met before more long-term goals can be addressed. Yet even a relatively small amount of savings can make a significant difference in the short term, enabling payment of a car repair or health care bill and preventing such unanticipated expenses from forcing a family into a cycle of debt and poverty.

Over the longer term, savings are even more critical. For example, studies show that single mothers with savings are significantly more likely to keep their families out of poverty than other single mothers, even after correcting for a variety of social and economic factors.[8] Other studies show that families with assets have greater household stability, are more involved in their community, demonstrate greater long-term thinking and planning, and provide increased opportunity for their children.[9] Clearly the ability to save and accumulate assets offers a wide array of benefits.

Some observers suggest that the whole definition of poverty should be revised to consider the accumulation of assets or the lack of them. One common definition of "asset poverty" would define people as "asset poor" if they lack sufficient savings or other assets to survive for three months at the poverty level. This form of poverty can be measured two ways: 1) by net worth (i.e., the value of all assets, such as car, home, savings account, etc.) minus debts or 2) by liquid assets, meaning cash or assets that can easily be converted to cash.[10]

Studies have long shown that levels of asset poverty exceed levels of income poverty in the United States. Using the first measure, net worth, roughly one out of five Americans can be considered asset poor. Looking at liquid assets measurements, the picture is even worse: more than a third of Americans can be regarded as asset poor.[11] However, even these measures may understate the severity of the lack of savings or assets among lower-income Americans. For instance, according to the Federal Reserve, 46 percent of adults in 2015 said that they either could not cover an emergency expense costing $400 or would cover it by selling something or borrowing money.[12] It should be no surprise that asset poverty is a much bigger problem for people who are poor. Using a liquid assets measure, more than 80 percent of Americans in the lowest income quintile can be considered asset poor.[13]

> "Too often, the importance of savings and wealth accumulation gets neglected in the context of poverty discussions."

The consequences of asset poverty for poor households are substantial. Most obviously, a lack of savings or other assets leaves a family more vulnerable to unanticipated expenses or a sudden change in economic circumstances. Events like job loss, divorce, or a health crisis can cause financial difficulties for all families. For those without savings to fall back on, these problems can become a full-blown crisis.[14]

Lack of savings and assets also makes it harder for people to invest in things that can help them escape poverty, such as relocating, purchasing a house or car, starting a business, or pursuing education for themselves or their children.[15]

In addition to effectively imposing a high marginal implicit tax on saving, asset tests can be arbitrary, capricious, and confusing, treating similar assets differently depending on the state, the program, or even the attitude of investigators. As the Federal Reserve Bank of Boston points out in a 2006 study, while one family may be able to retain its retirement savings when it applies for a means-tested program, another similar

family that uses a different retirement saving vehicle or lives in a different state may be ineligible for the same program unless it depletes its retirement savings. Also, a household may qualify for some programs but not for others based solely on different rules for the various programs.[16]

Finally, asset tests can be an inefficient use of state resources. California spends more than $6.4 million annually on asset testing and verification but has found that only 1 percent of cases exceed asset limits, most of those by insignificant amounts.[17]

In recent years, California has taken steps to reduce its use of asset testing for welfare programs. For instance, the state eliminated asset limits for CalFresh in 2015.[18] And, in the 2019–2020 legislative session, the legislature increased the exempt value for vehicles under CalWORKs to $25,000.[19]

However, the state continues to impose asset limits for other programs. For instance, other than the vehicle exemption, CalWORKs applicants can have no more than $10,000 in total assets. Asset testing for SNAP has been eliminated in California, but asset limits remain for older adults to qualify for Medi-Cal; and any assets valued above $5,000 counted against Section 8 eligibility.

California should review these and other social welfare programs to remove—or at least increase—asset limits and encourage savings.

Prioritize Cash Payments System over In-Kind Benefits or Indirect Payments

Several California localities have taken the COVID-19 response as an opportunity to experiment with what proponents called a universal basic income, among them Oakland, Stockton, and Marin County. None of these experiments implemented a true universal basic income—all were means tested, and in the cases of Oakland and Marin County, they were limited to specific groups such as low-income women of color—but they did move in the direction of providing cash benefits with minimal strings attached.

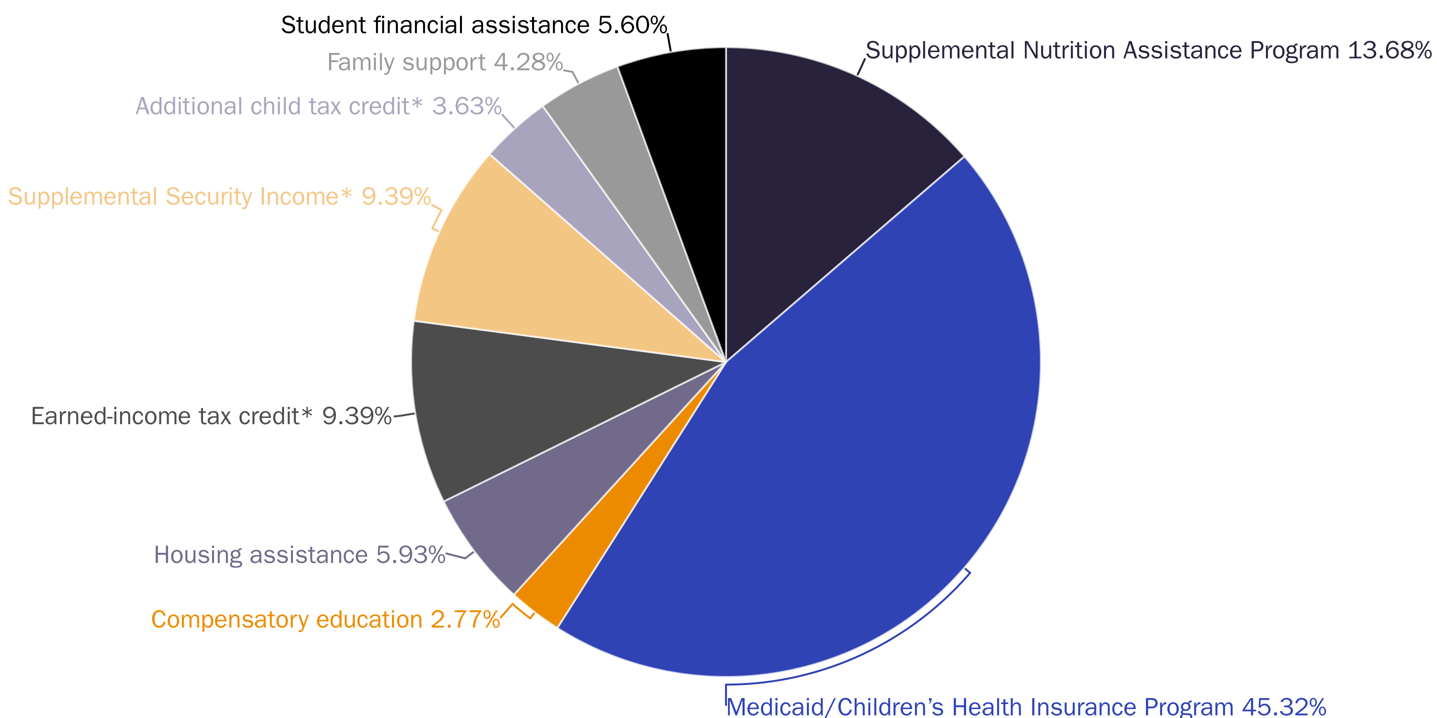
The cash benefit portion of these experiments is particularly important. By placing strict limits on TANF, the 1996 federal welfare reforms accelerated an already growing trend toward substituting "in-kind" benefits or indirect payments to vendors in lieu of cash. Today, most benefits are provided not in cash but as "in-kind" benefits. Indeed, direct cash assistance programs, including refundable tax credits, now make up 24 percent of direct federal transfers.[20] See Figure 5.1 for federal spending on social welfare programs. In-kind programs, such as food stamps, housing assistance, and Medicaid provide people with assistance but only for specific purposes. In most cases, the payments are made directly to service providers. The person being helped never even sees the money. People who are poor are not expected to budget or choose among competing priorities the way individuals who are not on welfare are expected to do.

Direct cash payments provide substantial advantages over other types of assistance. Cash benefits offer a greater degree of transparency and consistency, treating similarly situated people the same. Too often, existing programs reward those who can best navigate the system rather than those most in need. On the distribution side of the program, cash requires less bureaucracy to administer and can even save taxpayers money and allow more resources to go toward beneficiaries.

"Too often, existing programs reward those who can best navigate the system rather than those most in need. On the distribution side of the program, cash requires less bureaucracy to administer and can even save taxpayers money."

Providing cash also treats low-income people like adults. The recipient, rather than the government, chooses how much they should spend for housing, food, education, health care, and so on. Most of the rest of us make such budgeting decisions. Moreover, many programs go even further in limiting the use of benefits to government-approved purchases. For example, WIC can only be used to buy certain foods determined by government regulation.[21]

Figure 5.1
Federal spending on social welfare programs



Source: Gene Falk, "Low-Income Assistance Programs: Trends in Federal Spending," Congressional Research Service, May 7, 2014.
Note: *Denotes cash assistance programs.

Finally, while most economic and racial segregation in housing can be traced to housing policies, the current welfare system also contributes to the geographic concentration of poverty. Because only certain providers are both qualified and willing to accept payment through many social welfare programs, low-income people are often forced to live in areas with high concentrations of poverty. Often these areas have more crime, fewer economic opportunities, and a lack of social cohesion. Children are often stuck with failing local schools, which leave them less prepared for the job market and limit their opportunities.

California has an existing program that can be better utilized to expand and accelerate the move to cash-based benefits. Currently, in addition to the federal EITC, low-income Californians are eligible for the state version of the credit (CalEITC). However, the state program is much smaller and more narrowly targeted than its federal counterpart. For example, in 2017, Californians received more than $6.4 billion in benefits from the federal EITC, compared with $351 million from the state version.[22] The legislature significantly expanded the program in 2019, a move that was expected to increase California benefits to roughly $1 billion annually.[23] Despite this expansion, only one out of seven Californians who receive benefits under the federal EITC also receive state EITC benefits.[24]

Currently, to be eligible for CalEITC, families with children must have incomes below $22,000 annually, while childless adults must have annual incomes below $15,000. This is well below the federal threshold (as high as $54,000 for families, depending on filing status and number of children, and $21,000 for childless adults).

Rather than to continue to throw more money at current and new safety net programs, California should use existing resources to expand CalEITC. To do so, California should consolidate existing anti-poverty programs and fold them into a single fully refundable tax credit.[25] Those eligibility requirements and restrictions present in the consolidated anti-poverty programs but not incorporated within the current CalEITC should be eliminated.

As part of this change, the state should request that the federal government also consolidate funding for targeted anti-poverty programs into a single block grant that California can combine with existing funding to support the new, expanded CalEITC.

Of course, initially, certain programs targeted to disabled people, older adults, foster children, and other groups with special needs, as well as certain health care programs such as Medi-Cal, may have to remain outside this framework. However, even in these cases, the state should pursue efforts to consolidate such programs, create a single point of delivery, and shift to cash benefits, either separately or as part of the new EITC where possible.

Finally, to the degree possible, the new CalEITC should be provided as a true wage supplement. That is, payments should be made regularly throughout the year (ideally tied to wage payments), rather than once annually only after filing taxes.

Shifting from the current hodgepodge of programs to a single, cash-based approach (to the degree practicable) would offer several advantages. Shifting from in-kind benefits to cash would also increase transparency and equity, treat recipients fairly while encouraging responsibility, and reduce bureaucratic oversight of participants and associated administrative overhead. By eliminating certain unemployment or household requirements, the change would also increase incentives for work and marriage. The income-based phasing out of benefits under California's current welfare programs (including its EITC) creates a situation where workers' payroll taxes, benefit phaseouts, and costs of going to work (transportation, clothing, childcare, and so on) can leave an individual worse off if they try to increase their income outside the welfare system. Replacing existing welfare programs with a more comprehensive state EITC would not eliminate such disincentives, but it could significantly reduce them.

> "Welfare benefits help meet immediate material needs but simultaneously set up incentives that can penalize work, marriage, and other routes to self-sufficiency."

Finally, because it would incorporate funding from existing programs and cut administrative costs, this reform could be accomplished without any net increase in spending. Over the long term, such a shift would be a win for both recipients and taxpayers.

Expand Welfare Diversion Programs

Most welfare programs suffer from an internal contradiction. Welfare benefits help meet immediate material needs but simultaneously set up incentives that can penalize work, marriage, and other routes to self-sufficiency. For example, the combination of lost benefits, taxes, and employment costs can often mean that someone leaving welfare for work will see little, if any, increase in short-term income.

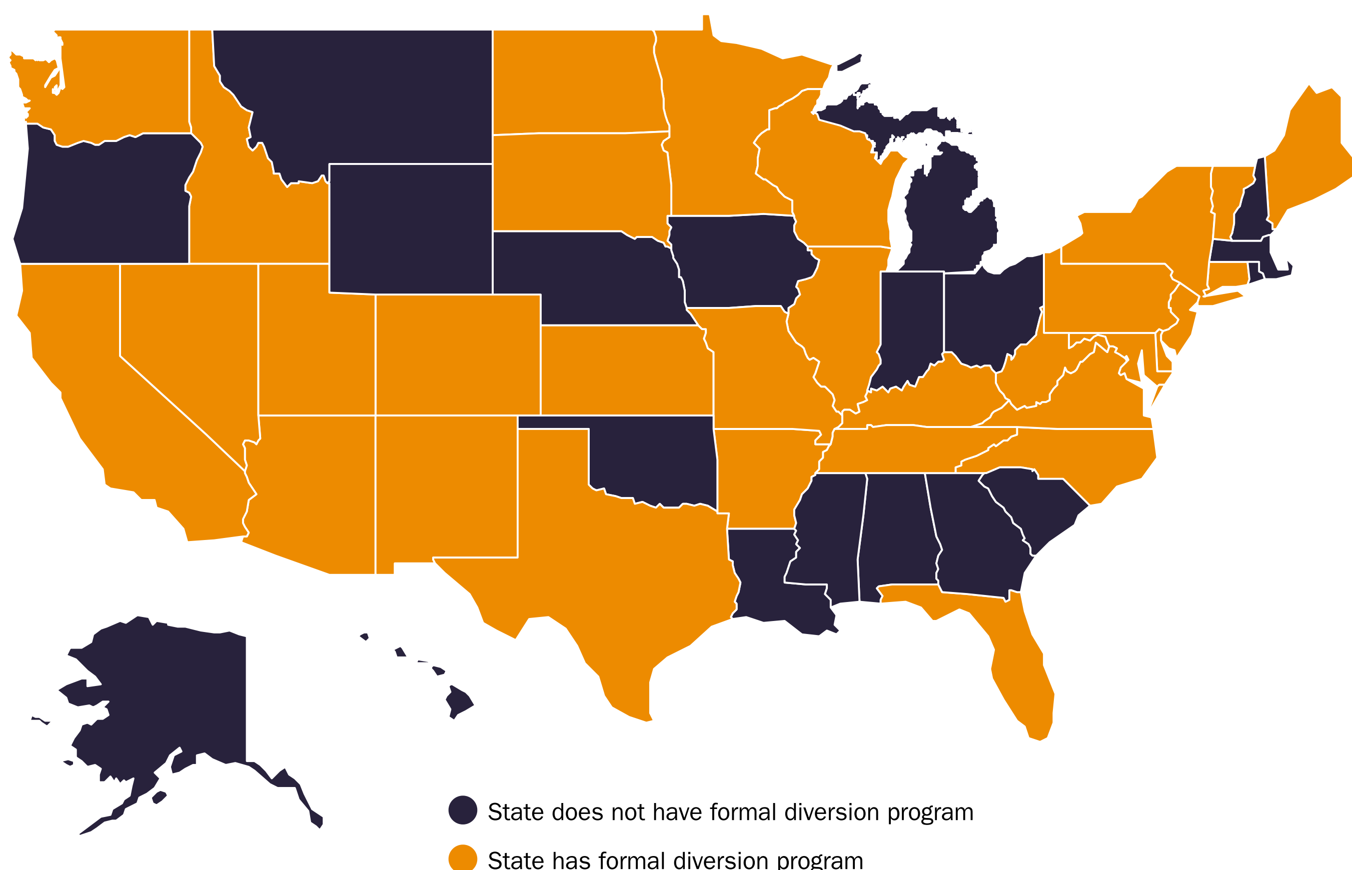
This problem is exacerbated by the fact that many people apply for welfare because of a short-term financial problem—for instance, divorce, fear of eviction, or a sudden health issue. In such cases, signing up for traditional welfare may do more harm than good, failing to solve the immediate crisis while locking the recipient into long-term dependency.

California is one of 32 states that maintains a welfare diversion program, which provides a lump-sum cash payment in lieu of traditional welfare benefits when certain qualifications are met (see Figure 5.2).[26]

These programs are designed to assist families facing an immediate financial crisis or short-term need. Families are given a single cash payment in the hope that once the immediate problem is resolved, there will be no need to go on long-term welfare. In exchange for receiving the lump-sum payment, welfare applicants forfeit their eligibility for TANF (CalWORKs) during their benefit term.[27]

This CalWORKs diversion program is administered at the county level. The county assesses whether an applicant would benefit from a lump-sum diversion program, considering factors such as the applicant's work history, prospects for employment, housing situation, and childcare arrangements. If the county determines that the family is eligible for the program, the family is given the option

Figure 5.2
Welfare diversion programs by state



Source: Katie Shantz, Ilham Dehry, and Sarah Knowles, "States Can Use TANF Diversion Payments to Provide Critical Support to Families in Crisis," *Urban Wire* (blog), Urban Institute, January 27, 2021.

of participating. The county and the participating family then negotiate a cash or noncash payment (or service) in exchange for the family agreeing not to apply for TANF during the period of the diversion. If the family *does* apply for TANF, the family either repays the lump sum out of its TANF benefits or has its five-year TANF time limit reduced. The lump-sum diversion payment generally is not considered income in determining food stamp eligibility. Moreover, during the period of the diversion, the applicant's family may be eligible for Medicaid benefits and childcare. (However, Medicaid eligibility is not automatic; the county is supposed to follow existing procedures for making a Medicaid determination.) In addition, any child support collected by the applicant or recovered by the county cannot be used to offset the diversion payment.[28]

Several studies indicate that for individuals who have not previously been on welfare, diversion programs significantly reduce their likelihood of ending up there. Studies also suggest that diversion program participants are subsequently more likely to become or remain employed than they are to become recipients of traditional welfare.[29]

Moreover, diversion programs may work particularly well as California recovers from the COVID-19 pandemic response. Research from the Urban Institute points out that many families are facing short-term or unique economic challenges that may require assistance but do not require long-term participation in the welfare system. For example, diversion funds can be used to pay for rent, utilities, and other housing-related costs or provide short-term food assistance, mental health and substance abuse treatment, domestic violence services, or vehicle repair.[30]

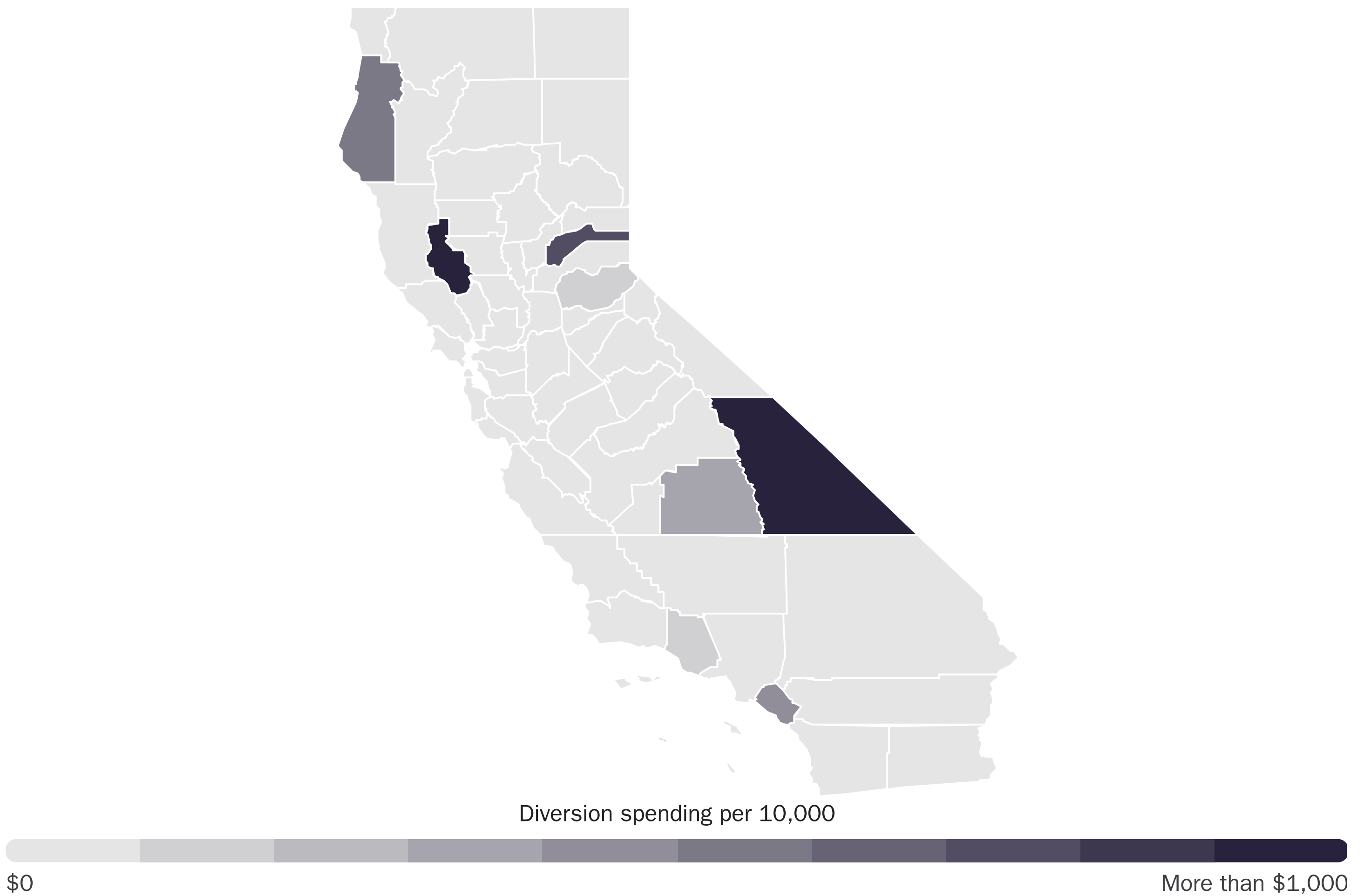
However, many California counties are underutilizing this valuable tool. Only about 18 counties currently use

diversion programs (see Figure 5.3). Before considering population, Orange County spends the most on diversion programs, followed by Inya County (which, when considering population, spends the most). Still, spending on diversion programs remains low even for many of the counties that use them: Orange County spent around $120,000 on diversion programs while spending over $100 million on CalWORKs in 2020.

Diversion should be the first recourse for many welfare applicants. Therefore, the California Department of Social Services should actively incentivize counties to prioritize and expand their use of this valuable tool.

Figure 5.3

Welfare diversion spending per 100,000 residents by county



Source: Author's calculations using "County Population Totals: 2010–2019," U.S. Census Bureau, last revised April 20, 2021, https://www.census.gov/data/tables/time-series/demo/popest/2010s-counties-total.html; and California Department of Social Services.

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