After 50 Years of Failure, We Can Win the War on Poverty

Prepared by the Working Group on Poverty and Welfare Reform
December 21, 2016

“If you’ve done the same thing for 50 years, and nothing’s changed, you should try something different if you want a different outcome.” – President Barack Obama

( Editor’s note: Some of the text in this paper is based on a previous publication written by Peter Ferrara and published by The Heartland Institute. )

Introduction
The War on Poverty began in 1965. From 1965 to 2008, the total amount of money spent on means-tested welfare for the poor alone was nearly $16 trillion, in 2008 dollars. Robert Rector and his colleagues at The Heritage Foundation report that sum was nearly three times all spending on all military conflicts from the American Revolution to today, which was $6.39 trillion in 2008 dollars. The total cost of World War II was $4.1 trillion in 2008 dollars, about one-fourth as much as for the War on Poverty.

In World War II, we defeated both Nazi Germany and Imperial Japan. What have we gotten for spending four times more on the War on Poverty?

Poverty was falling sharply after the Great Depression, before the War on Poverty was launched. The poverty rate fell from an estimated 25 percent in 1950 to 22.4 percent in 1959 and 14.7 percent in 1966, when the War on Poverty programs went into effect. Progress against poverty then abruptly stopped.

The poverty rate remained near that 1966 level throughout the 1970s before starting to rise again in the late 70s. From 1978 to 1983, the poverty rate rose by a third, to 15.2 percent, reflecting the chaotic economy of the 1970s. The U.S. poverty rate currently stands at 14.8 percent, where it was when the War on Poverty began, despite the expenditure of $16 trillion. Nearly 50 million Americans remain in poverty, just about

---

1 This statement was not made in reference to welfare policy. President Barack Obama said this on December 19, 2014, in reference to removing the U.S. trade embargo with Cuba. But it is actually most apt in regard to the War on Poverty, which this year commemorates 50 years of costly failure, even more costly in human terms than in financial terms.


4 Ibid.

5 Ibid., p. 13.


7 The U.S. Census Bureau, www.census.gov

8 Ibid.
the most ever. In other words, we fought the War on Poverty, and poverty won.

The Democratic Party and intellectuals on the left in America today have no new ideas for how to address poverty. They just want to keep doing what we have been doing for 50 years now, except possibly to spend even more to do it. They view any new ideas or possible reforms with suspicion, as if those proposals must ultimately involve a plot to abolish all aid and assistance to the poor.

This policy pessimism is unwarranted. Conservatives today recognize that the social safety net is a necessary reality, as reflected in recent works such as The Conservative Heart, by American Enterprise Institute President Arthur Brooks, and Power to the People, by Heartland Institute Senior Fellow Peter Ferrara. Winning the War on Poverty would do more to reduce government spending than trying to cut welfare benefits.

The experience of the past 50 years shows how we can do that. First, we need pro-growth policies across the board, maximizing general economic growth and broadly shared prosperity. Second, we need to look back at the past 50 years to see what works and what doesn’t in addressing poverty.

Two counterproductive incentives of the welfare system itself are at the root of the problem: incentives for people not to work, and incentives for women to bear and rear children outside of marriage. We can reverse those incentives with bold policies already proven to work in the real world. We do that by going back to first principles of conservatism, such as federalism, market incentives, jobs, work, and promoting intact families to raise children.

The War on Poverty can be won by harnessing modern labor markets – rather than taxes and redistribution – to achieve the social goals of welfare. Federalism means the responsibility for addressing poverty should be restored to state and local governments, to implement solutions in a new national welfare reform competition, with reforms designed to suit local conditions. This includes concrete solutions for the increasingly widespread problems of family breakup and childbearing outside of marriage. Even those who recognize the seriousness and magnitude of these problems have no concrete ideas for how to address them.

The welter of perverse incentives stemming from our outdated, fossilized welfare system can be reversed, ultimately changing the culture through the same means that the perverse incentives arising from welfare destroyed it. Reforms can replace the incentives for family breakup and child birth outside of marriage with the opposite incentives for family formation, and child birth within marriage, ultimately making that central to a new culture of prosperity among lower-income people in America. In particular, this report will focus on the idea that requiring work as a condition for the able-bodied poor to receive public assistance would inherently involve the most powerful incentives possible for family formation and raising children in intact families.

All of the dynamism and optimism in addressing poverty today is coming from the Republican Party and the right. Two younger but increasingly prominent Republican leaders are emerging as America’s leading anti-poverty warriors. Speaker of the House Paul Ryan (R-WI) has laid claim to the mantle of the late Jack Kemp in advancing innovative market-based solutions that would most aid and benefit the poor. And Sen. Marco Rubio (R-FL) ran for president on innovative market solutions that would reduce poverty by reversing the counterproductive incentives arising from welfare itself. Among intellectuals, Brooks and Ferrara are the two most aggressive in arguing that we know how to win the War on Poverty and urging free-market conservatives to take the lead in doing so.

These leaders recognize that effective social safety nets would not be economically burdensome if we maximize general economic

---

9 Ibid.
11 Peter Ferrara, supra note 2.
12 Except for the other entitlement reforms described in Power to the People, such as the seniors’ programs, such as Social Security and Medicare, and the health care financing programs, such as Obamacare. Taken together, these entitlement reforms are the only practical roadmap to smaller government.
growth and prosperity, and if the social safety nets themselves involve positive incentives that promote self-reliance, work, marriage, education, family formation, property ownership, law-abiding conduct, prosperity, and financial independence, rather than the social dysfunctions of non-work, bearing children outside of marriage, family breakup, single motherhood, gangs, drugs, violence, and crime. These positive, reversed incentives – and the resulting culture of prosperity instead of the culture of poverty – would be powerfully pro-economic growth, as discussed later in this report.

The Poverty of Welfare
In 1984, Charles Murray’s book Losing Ground shocked the nation by documenting how thoroughly we did indeed lose the War on Poverty. On a wide range of key social indicators – work, marriage, bearing children within marriage, crime, and alcohol and drug abuse, among others – the condition of the bulk of the poor worsened in response to the massive increase in government welfare programs that started in the mid-1960s with the War on Poverty.

One key reason the poverty rate stopped falling after the War on Poverty started is that the poor and lower-income population stopped working, leading to all of the other deteriorating social conditions Murray documents. In 1960, nearly two-thirds of households in the lowest one-fifth income bracket were headed by persons who worked. But by 1991, this work effort had fallen by about 50 percent, with only one-third of heads of household in the bottom 20 percent income bracket working, and only 11 percent working full-time all year.

This was not a matter of the poor not being able to find work. While the economy was chaotic during the 1970s, during the 1980s and 1990s America enjoyed a historic economic boom, creating millions of jobs. Millions of illegal immigrants surged across the border to gain those jobs and participate in America’s economic golden age, with the unemployment rate collapsing into insignificance by the end of the 1990s.

With the government offering generous and wide-ranging welfare benefits – from housing to medical care to food stamps to outright cash, and many others – to those with low incomes or who are not working at all, naturally many choose to reduce or eliminate their work effort and take the free benefits. As a matter of incentives, it is as if the government is generously paying people not to work and to have low incomes.

A seminal study by the federal government in the 1970s confirms this argument. In a carefully studied experiment, the government provided extra-generous packages of welfare benefits to groups of beneficiaries in Seattle and Denver. The welfare packages included everything more liberal policymakers could hope for, effectively providing a generous guaranteed income. Conducted from 1971 to 1978, the effort became known as the Seattle/Denver Income Maintenance Experiment, or “SIME/DIME.”

The dramatic bottom-line result? For every $1 of extra welfare given to low-income workers, those workers reduced their labor and earnings by 80 cents. No wonder the War on Poverty has failed!

The Poverty Trap
About one-third of the U.S. workforce earns between 150 percent and 200 percent of the federal poverty level, a point at which welfare benefits typically phase out. This raises another work-disincentive problem, labeled by Art Laffer and Steve Moore as the Poverty Trap. Since welfare is phased out as income rises, the loss of welfare benefits is economically the same as a tax on the rising earnings.

---

Consider the situation faced by a woman in poverty who receives $12,000 a year in welfare benefits. Suppose she gets the opportunity for a job earning $16,000 a year. If she loses 50 cents in welfare benefits for every dollar she earns, that is like a 50 percent tax taking away $8,000 of the earnings from work. The payroll tax will take another 7.65 percent of earnings, federal income taxes another 10 percent on the margin, and state income taxes roughly another 5 percent on the margin. That leaves an effective marginal tax rate of 72.65 percent, providing little incentive for this woman to work.

Laffer and Moore write:

Needs tests, means tests, and income tests exclude people [from welfare] as their incomes progressively increase, ensuring that funds are not squandered on those who are less in need. While “needs” tests may be rationalized on both moral and budgetary grounds, when combined with payroll and income taxes, the phased reduction of welfare benefits has meant that spendable income actually rises very little as gross wages increase, and for some income thresholds, spendable income (total spending power) actually declines as wages increase.18

In a path-breaking paper in 1983, Laffer examined the total effect of needs tests and taxes on an inner-city family of four on welfare in Los Angeles.19 He found:

What was clear from this analysis is that marginal tax rates for inner city inhabitants were prohibitively high – in some cases, the poorest people actually faced the highest marginal tax rates of all income groups. Over the entire range from no wages to wages of $1,300 per month, the family in my analysis faced marginal tax rates (net increases in spendable income) that ranged from a low of 53 percent (a poor family gained only $47 in spendable income when its gross monthly wages increased from $0 to $100) to a high of 314 percent (a poor family lost $214 in spendable income when its gross monthly wages increased from $1,000 to $1,100 a month.20

A 1996 Urban Institute study by Linda Ginnarelli and Eugene Steuerle on the same issue similarly found the poor faced effective marginal tax rates of 70 percent to 101 percent.21 The authors wrote, “A significant portion of the population faces tax rates of 100 percent or more for work at a full-time minimum wage job or for increasing their work effort beyond some minimal level. The net impact of this system, in our view, is pernicious.22

The work disincentives of the Poverty Trap spread throughout the bottom one-third of the workforce below 200 percent of the poverty line. But if we try to counter that problem by phasing out welfare benefits more slowly, reducing the effective marginal tax rate, that would spread the remaining work disincentives, and the dependency and spending burden of welfare, to higher and higher income levels, affecting more and more of the population. That would spread welfare dependency well into the middle class – not the right direction for welfare reform.

Rector explains that the typical poor family with children is supported by only 800 hours of work during a year, which amounts to 16 hours of work per week. If work in each family were raised to 2,000 hours per year, which is the equivalent of one adult working 40 hours per week throughout the year, nearly 75 percent of poor children would be lifted out of poverty.23

The work disincentives of welfare spread their devastating effects throughout entire low-income communities, like a tornado growing in force. As more and more people in a poor

18 Ibid., pp. 211–2.
20 Laffer and Moore, supra note 17.
22 Ibid.
neighborhood languish with little or no work, the entire local culture begins to change. Daily work is no longer the expected social norm. Extended periods of time hanging around the neighborhood, neither working nor going to school, become more and more socially acceptable, reinforcing the counterproductive incentive effects.

It is often said that idleness is the devil’s playground. When productive activity makes little economic sense because of the work disincentives of welfare, counterproductive social activities proliferate. Alcohol and drug abuse, recreational sex, child-bearing outside of marriage, and family breakup become the new, expected, social norms. Crime, a tax-free activity, becomes a natural outlet for enterprising but idle young men, promoting a spreading culture of violence. The end result is the culture of poverty, a mutually reinforcing, downward spiraling, vicious circle.

These are the reasons for what economist Steve Moore has called “the great conundrum of the U.S. economy today.”24 “[W]e have record numbers of workers out of the labor force at the same time we have businesses desperately trying to find workers,” he explains.

Moore cites troubling facts that illustrate the problem. “For example, the American Transportation Research Institute estimates there are about 35,000 trucker jobs that could be filled tomorrow if workers would take these jobs—a shortage that could rise to 240,000 by 2022.”25 He adds:

For skilled and reliable mechanics, welders, engineers, electricians, plumbers, computer technicians and nurses, jobs are plentiful. If you’re good at a trade and a reliable worker, you can often find a job in 48 hours. Says Bob Funk, President of Express Services, which matches almost a half-million temporary workers with employers each year, “If you have a useful skill, we can find you a job. But too many are graduating from high school and college without any skills at all.”26

Moore further explains, “Three years ago, the chronic disease of the economy was a shortage of jobs. This shortage persists in some sectors. But the bigger problem is a shortage of trained employees and low-skilled workers willing to work. Patrick Doyle, the president of Domino’s Pizza, says the franchises around the country are having a hard time filling delivery and clerical positions.”27 People are not even willing to take jobs as pizza delivery drivers or cashiers, hardly skilled labor positions.

What explains this unwillingness to work? The trillion dollars a year taxpayers are paying the bottom 20 percent not to work, through our current welfare system. That also explains the country’s record-low labor force participation rate, a problem that faced the country even before President Barack Obama took office. Obama’s economic policies have only worsened the situation. Workers are giving up because there is no economic growth that would ordinarily drive job growth and labor demand, which would drive up wages, which would entice many back in.

In the Middle Ages, the endless quest was the search for the Holy Grail. In modern America, the equivalent is the quest for “the root causes of poverty.” The above discussion fully illuminates one of the two root causes of poverty: non-work resulting from the counterproductive incentives of our vast welfare empire.

Incentives for Family Breakup and Bearing Children Outside of Marriage

Prior to the War on Poverty, black families remained intact, and the overwhelming majority of black babies were born to two-parent families. But coinciding with the War on Poverty, the rate of black births outside of marriage soared from 28 percent in 1965, to 49 percent in 1975, to 65 percent in 1990, to about 70 percent in 1995, where it remains today.28

25 Ibid.  
26 Ibid.  
27 Ibid.  
28 The illegitimacy rate is officially reported by the National Center for Health Statistics. See also Jason L. Riley, “The State Against Blacks: The Weekend Interview
This effect has not been limited to black Americans. Among white Americans, births outside of marriage increased from 4 percent in 1965, to 11 percent in 1980, to 21 percent in 1990, to about 25 percent in 1995, where it also remains today. Among white high school dropouts, the rate of births outside of marriage is 48 percent. Among Americans overall, the rate of births outside of marriage has increased from 7 percent when the War on Poverty began to 40 percent today. Basically, intact families and legitimacy among the lower-income population have been obliterated in the United States since the start of the War on Poverty.

Out-of-wedlock births and single-parent families have negative effects on children in general. A wealth of data, research, and studies now show:

- Children from single-parent homes on average have lower educational achievement, perform poorly on standardized tests, and even score lower IQs. They are also three times more likely to fail and repeat a year in grade school and are twice as likely to drop out of school altogether.
- Children from single-parent families are more likely to use drugs and to commit suicide.
- These children are two to three times more likely to experience mental illness or other psychiatric disorders. Around 80 percent of children admitted to psychiatric hospitals come from single-parent homes. These children are also more likely to exhibit behavioral problems such as hyperactivity, antisocial behavior, and anxiety.
- White women raised in single-parent families are 165 percent more likely to bear children out of wedlock themselves and 111 percent more likely to have children as teenagers. They are also 92 percent more likely to get divorced. Similar effects are found for black women.
- Children raised by never-married mothers are 2.5 times more likely to be sexually active as teenagers. Boys from single-parent homes are twice as likely to father a child out of wedlock.

Studies show that 75 percent of adolescent murderers, 70 percent of juvenile delinquents in state reform institutions, 60 percent of repeat rapists, and most gang members come from single-parent homes. Young black men raised in single-parent families are twice as likely as black men from two-parent families to commit crimes, and three times as likely if they come from a neighborhood with many single-parent families. A seminal study published in the Journal on Crime and Delinquencies found that crime in a community was more closely correlated with the percentage of single-parent families living there, rather than race or poverty.

Bearing children outside of marriage is the second key cause of poverty, in addition to non-work. The poverty rate for female-headed households with children is 44.5 percent, compared to 7.8 percent for married couples with children. The poverty rate for married black Americans is only 11.4 percent, while the rate for black female-headed households is 53.9 percent. As Rector explains, “If poor women who give birth outside of marriage were married to the fathers of their children, two-thirds would immediately be lifted out of poverty.”

Moreover, it is primarily these single-parent families who remain poor and dependent on welfare for the long term. Rector adds, “Roughly 80 percent of all long-term poverty occurs in single-parent homes.”

Single-parent families perpetuate poverty into the next generation. Children raised in single-parent families are seven times more likely to

33 Rector, et al., supra note 3, p. 25.
34 Ibid.
become welfare recipients as adults. The negative effects on children from single-parent families, and crime resulting from bearing children outside of marriage, perpetuate poverty long term.

Family breakup and births outside of marriage are the natural result of the incentives created by our ineffective and overgrown welfare empire. Most welfare benefits are restricted to families with children. If you are a non-elderly adult in America without children, you are pretty much expected to support yourself. That is a sound principle … but it means that having a baby is the gateway to a generous package of government benefits.

Moreover, if the baby’s mother is married to a man who earns a significant income, then the benefits are lost. In fact, if the mother is married to a man who is not working, but the government requires him to take available work before benefits are paid, then the benefits will be lost in any event, whether he refuses to work or takes work and earns an income that eliminates benefits.

Once again, it is as if the government is paying women to have children outside of marriage. As Rector aptly puts it, “Welfare … converts the low-income working husband from a necessary breadwinner into a net financial handicap. It transformed marriage from a legal institution designed to protect and nurture children into an institution that financially penalizes nearly all low-income parents who enter into it.”

This reinforces the welfare incentives for non-work. Young men in low-income communities lack the incentive to become educated and productive so they can support a family, because it’s difficult to outcompete welfare. This adds extreme school dropout rates to the culture of poverty.

And the effect of welfare in causing births outside of marriage is even more insidious than this. Welfare makes bearing children outside of marriage economically feasible. Young women do not need to worry about who will support their children. If they have a baby out-of-wedlock, the government will support them. So they can have children at a young age without marriage or developing income-producing skills of their own. If they do so, they get their own household and separate source of income, courtesy of the government – a very appealing package for a teenager.

Similarly, young men can engage in sex with multiple partners and father children without any financial or other responsibility. They know they need not support the children they produce.

The conflux of these counterproductive incentives of welfare disable the historical socializing influence of young women on young men. Young men no longer have much incentive to become educated family breadwinners in order to attract the opposite sex. And young women lose any reason to try to restrain young men to keep sex inside of marriage.

President Bill Clinton recognized this problem in a nationally televised interview in 1993, when he stated:

I once polled a hundred children in an alternative school in Atlanta, many of whom had been babies born out-of-wedlock. And I said if we didn’t give any AFDC to people ... after they had their first child, how many of you think it would reduce the number of out-of-wedlock births? Over 80 percent of the kids raised their hands.

Indeed, even the “liberal lion,” the late Sen. Ted Kennedy, recognized the problem. Speaking at the annual conference of the Michigan NAACP in Detroit in 1978, he said:

We go to a young girl, who’s now 18 or 16 or even younger and this is what we say, “abandon all of your hopes, your schools will not teach you, you will not learn to read or write, you will never have a decent job, you will live in the


neighborhoods of endless unemployment and poverty with drugs and violence,” but then we say to this child, “wait, there is a way, one way, you can be somebody to someone, that will give you an apartment and furniture to fill it; we will give you a TV set, and telephone, we will give you clothing and cheap food and free medical care and some spending money besides, and in turn you only have to do one thing, that is go out there and have a baby.”

These effects were documented in the SIME/DIME experiments discussed above. As Robert Carleson, senior welfare aide to Ronald Reagan when he was governor of California and president, reported:

[T]he study found a higher rate of marital collapse for families with guaranteed income. The results showed that when families received guaranteed income at 90 percent of the poverty level, there was a 43 percent increase in black family dissolution and a 63 percent increase in white family dissolution. At 125 percent of the poverty level, the black family dissolution rate showed a 73 percent increase while for white families dissolution increased at a rate of 40 percent.

These incentives for family breakup and out-of-wedlock childbearing reinforce the cultural trends discussed above. They further contribute to the rise of the poverty culture of drug and alcohol abuse, illegitimacy, crime, violence, and youth gangs, as young single males are more likely to engage in all of these activities. The proliferation of fatherless children from single-mother homes dominating poor neighborhoods dumps fuel on this social bonfire, as such children are more likely to engage in all of these counterproductive activities as well. And the rise of this culture of socially counterproductive activities just reinforces such activities, as everybody in the neighborhood is doing it, and such activities become the new social norm.

So we have now discovered the modern Holy Grail, the root cause of poverty in America today: our nation’s vastly overgrown welfare system! That welfare system is causing widespread non-work among the bottom 20 percent of the income ladder, and it is causing family breakup and childbearing outside of marriage, the two fundamental causes of poverty in America today.

Knowing the root cause of poverty is cause for hope for the poor and needy. Thoughtful welfare reform would directly address, and reverse, these root causes of poverty, ultimately eliminating poverty in America entirely. That would mean achieving victory in the War on Poverty, at long last.

Welfare Reform Begins

The Origins of Welfare Reform

The process of welfare reform began in California under Gov. Ronald Reagan, who had been elected in 1966 and then reelected in 1970 on a platform pledging reform of the then-expanding welfare system. Right after his reelection, Reagan appointed his deputy director of the California Department of Public Works, a former career city manager named Robert Carleson, to be his director of the California Department of Social Welfare. Carleson developed the first serious effort to reform the War on Poverty welfare programs.

Over the previous 10 years, the number of

38 Ibid., p. 57.
39 The task force is not arguing here that the explosion of welfare since the War on Poverty is the sole cause of rising illegitimacy. Changing social attitudes about sexual behavior undoubtedly also have played a big role. But the welfare system has probably played the major role, based on the above incentives analysis, the data showing the heavy concentration of illegitimacy among the lower-income groups most affected by welfare, the correlation between exploding welfare and exploding illegitimacy, and experiments and studies such as SIME/DIME.
40 Susan A. Carleson and Hans A. Zeiger, supra note 37, pp. 4, 15.
people on welfare in California had almost quadrupled from 600,000 to more than 2.2 million, and the available money was spread so thin that benefit payments for the truly needy were inadequate. The first Reagan reform goal was to restrict welfare benefits to those who were actually poor, the “truly needy” as Carleson called them. Liberals had argued for phasing out welfare eligibility slowly as income of the recipient rose, to reduce the disincentives and effective tax of the poverty trap on increasing work and income.

But doing so would have little effect in reducing the downward draft of welfare on the poor. Rather, it would just draw more and more people above poverty into the perverse disincentives of welfare, because they could still qualify for some assistance at higher income levels, which would greatly increase costs for taxpayers.

Reagan and Carleson reduced welfare rolls substantially, first in California in the early 1970s and then nationally in the early 1980s, by restricting welfare more tightly to those who were actually poor. At the same time, they increased benefits for the neediest. Their second goal was “workfare,” but this was more difficult to achieve. Reagan and Carleson wanted to require that if a welfare recipient could not find a private-sector job, he or she would have to work in community service for a number of hours each week sufficient to “earn” their benefits at an implicit wage rate roughly equivalent to the minimum wage. They reasoned that requiring work for welfare would greatly reduce the perverse counterproductive welfare incentives for non-work and bearing children outside of marriage.

Reagan and Carleson made some headway with workfare innovations in California, but federal law prevented them from adopting the full program. After Reagan became president (one of the authors of this Roadmap report, Peter Ferrara, worked directly for Carleson in the White House Office of Policy Development), they faced a roadblock in the Democrat-controlled House in getting the necessary changes in federal law to implement workfare nationwide. But in 1987, Reagan won changes that would allow states to experiment with a broad range of work requirements and other welfare innovations, with a federally granted waiver of traditional program requirements.

At first, many conservatives did not expect the legislation to be effective. But it helped to spawn a welfare revolution among the states, with the most comprehensive and successful reforms achieved by Gov. Tommy Thompson in Wisconsin. Thompson was able to implement the full workfare plan of Reagan and Carleson. The Thompson reformers were granted a waiver for the plan by President George Bush’s Department of Health and Human Services, in probably the best domestic policy move of his presidency.

Leading implementation of those reforms for Thompson was the persistent welfare reformer Jason Turner. The key to the Thompson/Turner reforms was a true work requirement for those on welfare, the first work requirement that had ever been fully implemented. Recipients who could not find private-sector jobs were required to do community service work. If the recipient did not work the required hours, the AFDC and Food Stamp benefits for that recipient’s family were reduced proportionally. If the recipient did not work at all, then no AFDC or Food Stamp benefits were paid to the recipient’s family.

Turner added a further innovative component. To provide incentives for the state’s welfare bureaucracy to fully and faithfully implement the reforms, funding for each local welfare office was dependent on the office’s success in getting recipients to work. Moreover, the Thompson/Turner reforms provided that the work of offices that proved unable to get recipients to work would be contracted out to private contractors. With these incentives, the Wisconsin welfare bureaucracy implemented the reforms with startling efficiency and enthusiasm.

The results of the Thompson/Turner reforms were truly dramatic. The AFDC caseload in Wisconsin fell by 81 percent. In the state outside Milwaukee, the caseload fell 95 percent. Even in inner-city Milwaukee, the welfare caseload fell 60 percent.

The Wisconsin reforms began to spread to

41 Ibid., pp. xix, xx.
other states across the country. Idaho and Wyoming achieved caseload reductions of 68 percent. Alabama, Mississippi, and New Mexico cut their caseloads in half. Nationwide, caseloads for the AFDC program dropped by one-fourth in the two-year period from September 1995 to September 1997.

**Welfare Reform Goes National**

By 1996, welfare reform was ready to go national. House Speaker Newt Gingrich (R-GA) and Rep. Clay Shaw (R-FL), chairman of the Welfare Subcommittee of the House Ways and Means Committee, led the reform effort to achieve the ultimate welfare reform goal of Reagan and Carleson: block grants to the states.42 Carleson directly advised their efforts. President Bill Clinton vetoed the reforms twice, but just before the 1996 elections he signed the bill, which the Republican Congress had passed for a third time.

The legislation focused on the Aid to Families with Dependent Children (AFDC) program, originally adopted in the 1930s as a central component of the New Deal. That program primarily paid cash to single mothers with children. Federal funding for the program was based on a matching formula: The more a state spent, the more money it received from the federal government. Most states received a federal dollar for each dollar they spent, but some received as much as four federal dollars for every state dollar, depending on average incomes in the state. This created new counterproductive incentives, with the federal government effectively paying the states to spend more. And so they did, signing up increasing numbers of welfare recipients in good economic times and bad, thereby bringing more federal funds to their states. Those who tried to reduce welfare spending in their states, as Reagan did in California, faced opposition because their proposed reforms would mean the loss of federal funds.

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the federal share of AFDC spending was returned to each state in a “block grant” to be used in a new program designed by the state based on mandatory work for the able-bodied. The grant is finite, not matching, so it does not vary with the amount the state spends. If the state wants to spend more than its federal block grant, it must pay for the extra spending itself. If the state spends less, it can keep the savings. This replaces the counterproductive incentives of the old system with positive incentives to weigh costs against benefits.

To give the states broad flexibility in designing the new program, the federal eligibility standards and benefit level requirements of the old AFDC program were repealed. That entailed repealing the entitlement status of AFDC, as states could not be free to redesign their programs if their citizens were entitled to coverage and benefits as specified in federal standards. States were explicitly authorized to use program funding for child care so parents could work, and for wage supplements for those who moved into private employment. The one remaining condition of federal funding was that the new state programs must require work as a condition of receiving cash benefits. AFDC benefits were subject to time limits for the first time, with each family limited to five years of benefits. The name of the program was changed to Temporary Assistance for Needy Families (TANF).

The welfare establishment bitterly opposed the reform. Their view was well-expressed by Sen. Daniel Patrick Moynihan (D-NY), the Urban Institute, and others who predicted the reforms would produce a “race to the bottom” among the states, and that within a year a million children would be starving in the streets.43 But quite to the contrary, the reform was remarkably successful,44 exceeding even the predictions of its most ardent supporters. The old AFDC rolls were reduced by two-thirds nationwide, from a high of 14.2 million in 1993, the year before the state waiver experiments

---

42 Ibid., pp. 104–5.

43 Ibid., pp. 138–9.

began to have an effect, to 4.6 million in 2006. The rolls were reduced even more in states that pushed work most aggressively: Wyoming (97 percent), Idaho (90 percent), Florida, Georgia, Illinois, and Louisiana (each 89 percent), North Carolina (87 percent), Oklahoma (85 percent), and Mississippi, Texas, and Wisconsin (each 84 percent). By 2006, the percent of the population receiving TANF cash welfare was down to 0.1 percent in Wyoming, 0.2 percent in Idaho, 0.5 percent in Florida, 0.6 percent in Georgia, Louisiana, North Carolina, and Oklahoma, and 0.7 percent in Arkansas, Colorado, Illinois, Nevada, Texas, and Wisconsin.

In his book evaluating the 1996 welfare reforms, *Work Over Welfare*, Ron Haskins of the Brookings Institution reported, “the number of families receiving cash welfare is now the lowest … since 1969, and the percentage of children on welfare is lower than it has been since 1966.” The percentage of American children on AFDC/TANF was reduced from 14.1 percent in 1994 to 4.7 percent in 2006.

Total federal and state spending on TANF by 2006 was nearly 10 percent below the 1995 peak in AFDC spending. In real, inflation-adjusted dollars, total TANF spending by 2006 was down 31 percent from AFDC spending in 1995.

Importantly, total AFDC spending had increased by 67 percent in just eight years from 1987 to 1995. That means total spending on the program after reform was effectively reduced by close to half of what it would have been by 2006, 10 years later, under the old system at prior trends.

Haskins wrote, “from 1993 to 2000 the portion of single mothers who were employed grew from 58 percent to nearly 75 percent, an increase of almost 30 percent,” and “employment among never married mothers, most of whom join the welfare ranks within a year or two of giving birth, grew from 44 percent to 66 percent,” an increase of 50 percent. Because of all this renewed work effort, the total income of low-income families formerly on welfare increased by about 25 percent over this period. Haskins reports:

Between 1994 and 2000, child poverty fell every year and reached levels not seen since 1978. In addition, by 2000 the poverty rate of black children was the lowest it had ever been. The percentage of families in deep poverty, defined as half the poverty level, … also declined until 2000, falling about 35 percent during the period.

This decline in poverty “was widespread across demographic groups” and “the decline was caused by increased employment and earnings of female headed families.” Based on total income, poverty among these female-headed households declined by one-third, meaning nearly 4.2 million single mothers and children climbed out of poverty. Haskins cites a study by Isabel Sawhill of the Urban Institute and Paul Jargowsky, who concluded:

So great was the decline in poverty that the number of neighborhoods with concentrated poverty fell precipitously, as did the number of neighborhoods classified as underclass because of the concentration of poverty and the high frequency of problems such as school dropout, female headed families, welfare dependency, and labor force dropout by adult males.
Haskins concludes:

The pattern is clear: earnings up, welfare down. This is the very definition of reducing welfare dependency. Most low-income mothers heading families appear to be financially better off because the mothers earn more money than they received from welfare. Taxpayers continue making a contribution to these families through the [ Earned Income Tax Credit] and other work support programs, but the families earn a majority of their income. This explosion of employment and earnings constitutes an enormous achievement for the mothers themselves and for the nation’s social policy.57

Winning the War on Poverty

The 1996 welfare reform had one big shortcoming: It reformed only one program, AFDC. The federal government operates more than 150 additional means-tested welfare programs.58

The same 1996 AFDC reforms – which have proven wildly successful – can and should be extended to every one of these federal programs as well. The suggestion that all these programs could be reformed just as AFDC was in 1996 comes from Ron Haskins, now a senior fellow at the Brookings Institution. He was chief of staff for the Welfare Subcommittee of the House Ways and Means Committee when Chairman Rep. Clay Shaw (R-FL) spearheaded the 1996 reforms.

Ideally, all federal means-tested welfare programs would be block-granted back to the states – not individually but in one lump sum, with the states free to use the money for assistance to the poor as they each deem best and most effective. Practically, this would involve a number of separate bills, coordinated to work together.59 One would reform Medicaid, big enough for its own bill, probably along with the State Children’s Health Insurance Program (SCHIP). Other programs perhaps would be grouped in their own bills for each congressional committee with jurisdiction over such welfare programs.60 The federal funding for each would be provided through fixed, finite block grants, not with matching federal funding formulas, which give more money to each state the more the state spends. To the extent the state spends more on its new, redesigned welfare system, the state would pay for it out of its own pocket (meaning the pockets of its taxpayers). To the extent the state spends less, it can keep the money for other uses.

Block-granting the remaining means-tested welfare programs would effectively amount to sending welfare back to the states, with continued federal assistance in financing. As Carleson writes:

Until President Lyndon Johnson sought to establish his Great Society, welfare in America was primarily a state, local, and private responsibility. Federal spending was modest. But following Washington’s takeover of welfare during the 1960s War on Poverty, government welfare spending soared.61

With the states back in charge, each would have the flexibility to structure its welfare system to suit the needs and circumstances of its citizens. The administrative savings alone would be substantial. State control also would allow experimentation among the states, with real-world results proving what works and what doesn’t. Economic and political competition among the states would lead them to adopt what has proven to work best. This is the conservative policy of federalism.

Such block-grant reforms would achieve the ultimate dream of Reagan and Carleson in restoring the original federalism and state control over welfare. It also follows the spirit of the Tea Party movement across the country in restoring power to the states and gaining control over government spending, deficits, and debt. And it

57 Haskins, supra note 209, p. 335.
58 Peter Ferrara, supra note 2.
60 Ibid.
61 Susan A. Carleson and Hans A. Zeiger, supra note 37, p. 107.
would be much more efficient and effective at achieving the stated goals of welfare-state proponents, as the reform would benefit the poor through increased work and the resulting increased incomes. The reform offers the prospect of eliminating poverty in America.

As noted earlier, the best estimate of the total current cost of these more than 150 means-tested welfare programs is $10.3 trillion for the years 2009 to 2018.62 Granting there are significant differences among these 150 programs and the results will not be the same for each, we can assume as a working hypothesis that the resulting savings would be on par, overall, with the savings achieved by the 1996 AFDC reforms. Bottom line: The net cost to the taxpayers would ultimately be reduced by half from where it would be otherwise, with a savings of $4 trillion to $5 trillion over 10 years.

Already, the Congressional Budget Office (CBO) has scored such a block grant of Medicaid, as proposed by House Speaker Paul Ryan (R-WI) when he was chairman of the House Budget Committee and included in the GOP budgets passed by the House in each of the past six years, as saving close to $1 trillion over the first 10 years alone. A stricter block grant bill, proposed by Rep. Todd Rokita (R-IN) with dozens of House cosponsors, has been scored by CBO as saving $2 trillion over the first 10 years.

The federal funding for these programs should be apportioned among the states utilizing current federal funding formulas to the extent possible. That reflects political compromises already reached. The reform would be endangered by reopening this most political of all battles. Federal requirements on the use of these funds by the states should be limited to just three: First, they must be used to assist poor and low-income families. Second, they must be used without discrimination in accordance with federal civil rights laws. Third, the assistance must be provided in return for work – except in the case of the disabled or retired seniors, who should no longer be expected to work. As Carleson advises, “assistance could only be provided in return for work from the able-bodied adults in the family, and the states would be free to carry this out.”

Rubio’s Flex Fund Solution

Sen. Mark Rubio’s (R-FL) Flex Fund proposal is a means for carrying out precisely the above universal block grant proposal. In a speech titled “Reclaiming the Land of Opportunity: Conservative Reforms for Combatting Poverty,” delivered on January 8, 2014 in the Lyndon B. Johnson Room of the U.S. Capitol, Rubio said:

What I am proposing today is the most fundamental change to how the federal government fights poverty and encourages income mobility since President Johnson first conceived of the War on Poverty 50 years ago. I am proposing that we turn Washington’s anti-poverty programs – and the trillions spent on them – over to the states.

Our anti-poverty programs should be replaced with a revenue-neutral Flex Fund. We would streamline most of our existing federal anti-poverty funding into one single agency. Then each year, these Flex Funds would be transferred to the states so they can design and fund creative initiatives that address the factors behind equality of opportunity.

This worked in the 1990s with welfare reform. In that case, Congress gave the states the ability to design their own programs, and in turn the states enacted policies that promoted work rather than dependence. In the years that followed, this led to a decline in poverty rates and welfare expenses.64

Rubio added:

We must simplify the sprawling federal

62 Rector, et al., supra note 3

63 Carleson and Zeiger, p. 112.

bureaucracy that administers our anti-poverty programs and instead create a Flex Fund that simply calculates an annual lump sum payment for each state’s needs, transfers the funds, and measures progress by requiring the Department of Health and Human Services to annually report to Congress how each state is spending its Flex Fund.

Available funding would remain the same. Funding formulas should be calculated as the number of people in a state that are in poverty multiplied by a fixed per-person amount that is determined by the amount of money spent on the repealed federal programs or tax expenditures. The fundamental change being proposed is that states would decide how to spend the money, not Washington politicians and bureaucrats. Over time, empowering states to implement effective solutions will result in more people working and fewer people requiring government assistance.

This is exactly the same vision for welfare policy reform that Reagan and Carleson had, as described above, to the extent that all federal, means-tested, welfare programs are included in the Flex Fund system. That would employ the same tools of federalism as described above, which was a major Reagan administration theme. The incentives for states from the lump sum federal funding formula would lead to the same win-win for the poor and taxpayers as under the block-grant reforms. Those incentives would lead the states to focus on moving the poor off taxpayer dependency and into work. The increased work would result in increased incomes for the poor, and the reduced taxpayer dependency would result in substantial taxpayer savings over time, especially as compared to where the current system is going without reform.

The federal legislation would not specify how the states should carry out their new responsibility to provide welfare assistance to the poor. The key remaining question is how they should do that, and exactly what should they decide to do with the new block-grant money and power they would be getting under this federal reform.

The Guideposts

In *The Conservative Heart*, Arthur Brooks explains the general principles of a conservative vision of “social justice” and public assistance policy. He writes, “To conservatives, a social justice agenda means making the starting line more equal for the vulnerable by improving education, expanding the opportunity to work, and increasing access to entrepreneurship.”

That would involve, he further explains, “an agenda that promotes values, help and hope,” that together would define “a culture of faith, family, community and work.” That would reflect the “fundamental belief that the best welfare program is a stable family life and a real job.” His vision is well-grounded in words he quotes from Friedrich Hayek, the godfather of modern libertarianism, and Ronald Reagan, the greatest political leader in the history of conservatism.

In regards to values, Brooks writes:

According to an analysis by scholars at the Brookings Institution, adults who finished high school, gained employment, and waited until they were at least 21 and married before having children had just a 2 percent chance of living in poverty. Their odds of moving into the middle class were better than 70 percent. Those who did not follow that sequence had a 77 percent chance of living in poverty and just a 4 percent chance of reaching the middle class.

A little bit of help is possible, Brooks adds, because, “Free enterprise has made America so prosperous that, as a society, we can afford to take care of our brothers and sisters who simply

cannot take care of themselves – and to provide temporary help to those who are down on their luck and need a hand up.”

Brooks explains, “Instead of cutting the safety net, conservatives should be the guardians who protect it, limit it to the truly indigent, and infuse it with work.”

In regard to hope, Brooks notes, “There are two very different kinds of help. There is help that destroys hope and help that engenders it. … Too often, the material relief supplied by government implicitly tells its recipients, ‘You can’t do it, so we are going to carry you.’ Our message to the poor must be precisely the opposite. … ‘It can be done—and you can do it.”

That is why “the third plank in the new right’s social justice agenda [is] opportunity.”

Brooks summarizes,

First, … there is nothing wrong in concept with true safety net programs targeted at genuinely needy people. … Americans should take pride in a limited, sustainable net that helps our most vulnerable neighbors. Second, however, these policies absolutely must be designed, administered, and adjusted to help those truly in need, not the rest of us. Third, the safety net’s ultimate purpose cannot be to make some Americans’ perpetual subsistence in poverty a slightly less miserable experience. Our goal must be to help the poor lead lives of dignity, independence, self-reliance, and above all, work.

These principles are instructive as to what each state should do with its new power and control over funding in the emerging new round of fundamental welfare reform.

Speaker Ryan’s Opportunity Grants

House Speaker Paul Ryan (R-WI) describes the problem succinctly: “Poverty is too high, unemployment is too high, labor force participation is too low, and wage growth is too slow.” He is not shy to finance fully adequate safety nets. But his metric of success “is the number of people who don’t need government assistance.”

Ryan’s proposed Opportunity Grant initiative is a pilot program “to coordinate aid for families in need.” It follows in the Reagan/Carleson tradition, and the trend furthered by Rubio, of grounding successful reform on restoring traditional American federalism, with funding and power flowing back to the states, to try different experiments to prove what works, and relying on competition among the states to spread what works across the whole country.

One new idea in Ryan’s reform proposal is customized case management for each individual recipient of assistance. Ryan explains, “The key, then, is to customize assistance to low-income Americans and incorporate work into the safety net. For the able bodied, work should be a condition of assistance. But more broadly, federal aid shouldn’t just require people to find a job; it should put them on a path to build a career.”

Ryan notes as a model the comprehensive assistance provided by the private organization Catholic Charities. Ryan explains, “These groups focus on the unique needs of each family and help people develop their individual strengths. It is their intimate knowledge of the people they serve – as well as their ability to take the long view – that makes these groups so successful. They are more effective than distant bureaucracies for a simple reason: They don’t just relieve the pain of poverty; they give people the means to get out of poverty.”

Ryan adds, “Like welfare reform, the Opportunity Grant program would begin in a handful of states committed to fixing the status quo. Because the program would be deficit-neutral, the state would receive the same amount of overall funding from the federal government.

69 Ibid., p. 141.
70 Ibid., p. 142.
71 Ibid., pp. 144–5.
72 Ibid., p. 145.
73 Ibid., p. 144.
But by giving states more flexibility, the federal government could test a variety of approaches.”

Ryan draws on the fundamental formula for his opportunity grant proposal as “the recipe for success is more flexibility in exchange for more accountability.” Ryan’s Opportunity Grant proposal “would create a new pilot project in a select number of states. In participating states, the federal government would consolidate a number of means-tested programs into a new Opportunity Grant (OG) program. The largest contributions would come from SNAP, TANF, child-care, and housing assistance programs, and the funding would be deficit neutral relative to current law.”

Ryan explains:80

The Opportunity Grant wouldn’t just be a blank check. Instead, the federal government would require each participating state to develop and submit for fast-track approval a concrete plan to develop a new aid program. To get approval, the plan would have to meet four conditions.

First, the plan must demonstrate how the funds would be used to move people out of poverty and into independence. … The plan must, at a minimum, direct assistance first toward people below the poverty line. Second, the new program would have to require all able-bodied recipients to work or engage in work related activities in exchange for aid. [elderly and disabled exempt]. Third, the state would need to use some funds from the consolidated programs to encourage new approaches by innovative groups as well as non-governmental organizations with a proven track record. It would also need to show how it would give low-income Americans more service providers to choose from. …

If approved, states would take the funding for these programs and provide a fixed funding stream to competing local service providers, including nonprofits, for-profits, and state agencies. In some cases, each person might apply directly to the service providers for assistance, and providers could provide customized aid through case management.81

In other words, Ryan envisions a competition among the states to receive the first Opportunity Grants. The states would specify what they would do with the grant money in adopting a new welfare system for each of their states respectively, within their competing applications. Ryan envisions the new system as providing assistance through a wide range of service providers in open competition against each other. These service providers would provide the cash assistance, possible job training, child care during work or training, and help in finding work, suitable housing, and any other necessary assistance, such as health care and insurance.

The alternative service providers could include private non-profit organizations (such as Catholic Charities), commercial for-profit enterprises, and state agencies, which just about covers the whole gamut of possible alternatives. Each welfare recipient would choose among these providers for their own assistance. Ryan prefers that each recipient would have a choice of more than one alternative and some ability to switch among the alternatives after trying one or more. Ryan also clearly prefers that one or more of the alternatives provide individualized case management, as does Catholic Charities.

Ryan’s Opportunity Grant alternative is not as open-ended in allowing state discretion as the pure block grant extension proposal discussed above or the Rubio Flex Fund alternative. Ryan’s Opportunity Grants are somewhat proscriptive regarding the new state programs to be adopted after the reform, through the federal preferences exercised in choosing the winners in the Opportunity Grant competition. Ryan’s proscriptions are nevertheless intriguing,

81 The state and the federal government also would have to agree on measures of success and evaluation by a third party to conduct an objective assessment of the plan.
envisioning at least a dual-level competition—first among the states in applying for the grants, and then among the service providers, where the poor themselves are empowered to make the final decisions as to the options and choices involved in the new state welfare systems that emerge from the reform.

**Ryan Task Force on Poverty, Opportunity and Upward Mobility**

Early in 2016, Ryan appointed six task forces composed of House Republicans to address specific issues with analysis and proposed reforms. Covering poverty and welfare reform was the Task Force on Poverty, Opportunity and Upward Mobility, which issued its report on June 7, 2016.

The task force report notes federal and state taxpayers are currently spending $1 trillion a year on means-tested welfare programs for the poor. Yet poverty as measured by the poverty rate is no better than it was before the War on Poverty started. The report suggests that as a metric for success, we should consider how many people are able to use public assistance to grow out of poverty, rather than the number of people receiving public assistance.

The report endorsed fundamental welfare reform based on four key principles:

1. Expect work-capable adults to work or prepare for work in exchange for welfare benefits;
2. Get incentives right so everyone benefits when someone moves from welfare to work;
3. Measure the results;
4. Focus support on the people who need it most.

The report explains that non-work is a fundamental cause of poverty—noting, “of all working-age adults (18–64) who were in poverty in 2014, almost two in three were not working at all, and another 27 percent were working only part-time.” Only 2.7 percent of full-time workers lived in poverty.

Pointing towards federalism, the report suggests “states should be held accountable for helping welfare recipients find jobs and stay employed.” The report notes overwhelming support among the American public for requiring work from the able-bodied to receive public assistance: “89 percent of Americans agree that work-capable adults who receive welfare assistance from the government should be required to work or prepare for work in exchange for receiving benefits.”

The report also addresses the Poverty Trap caused by the effective tax due to the withdrawal of welfare benefits as wages and income rise. As the report explains, because “benefits phase out as you move up the income ladder—and people are often on multiple programs at the same time—many households end up losing almost as much money in expired benefits as they make in higher pay.”

The report includes a specific example from the interaction of welfare programs in the state of Pennsylvania. A single mother with two children earning the minimum wage of $7.25 in Pennsylvania would barely break even if she took a raise to $10.35. The task force report says, “the mother’s taxes would increase as her welfare benefits decreased, leaving her with only 10 cents for each additional dollar she’s earning. And, if she continued to earn a higher wage, she might end up worse off than when she started.” That is an effective marginal tax rate of at least 90 percent.

The report endorses policies to make sure workers have the right incentives, making more income overall by working more: “Each of these welfare programs and tax benefits for low-

---


83 Task Force on Poverty, Opportunity and Upward Mobility, supra note 65, p. 6.

84 Ibid., p. 7.

85 Ibid.

86 Ibid.

87 Ibid., p. 10.

88 Ibid., p. 13.

income families rewards work by allowing recipients to keep a portion of the benefits as earnings increase, so that even with reduced benefits the individual is better off financially.” But there is a limit as to how far that can go without extending welfare into the middle class. That is why “certain families who receive multiple welfare and tax benefits and increase their earnings when they work may lose more benefits than they gain in wages.”

If public assistance is made conditional on working for the able-bodied not of retirement age, then that assistance would effectively be part of the compensation for working in the first place. Wage increases from there would still leave the worker looking forward to wage increases, breaking out of the poverty trap tax altogether.

The Earned Income Tax Credit can help further by increasing the financial rewards from work and easing the glide path from welfare to work. States can have the authority to make the Child Tax Credit also contingent on work and phase it out more slowly as income rises.

The task force report recognizes bearing children outside of marriage is a second root cause of poverty, noting single-parent families account for 60 percent of families in poverty. Only 2 percent of those who graduate from high school, work full-time, and delay having children until after marriage suffer poverty. But among those who drop out of high school, don’t work, and become teen-age mothers outside of marriage, 80 percent or more fall into poverty. Moreover, social mobility – that is, rising out of poverty – increases in communities with more two-parent families.

Our welfare system effectively imposes a penalty on marriage, as well as work, because “when low-income fathers and mothers marry, their combined income from welfare and wages will almost certainly be lower than the amount they had separately.” The report quotes Eugene Sterling from the Urban Institute saying:

For several decades now, policymakers have created public tax and transfer programs with little if any attention to the sometimes-severe marriage penalties that they inadvertently impose. The expanded public subsidies thus put in place by lawmakers came at the expense of higher effective marginal tax rates, as program benefits often had to be phased out beginning at fairly low incomes to keep overall program costs in check. The combined effective marginal tax rates from these phase-outs and from regular taxes are very high – sometimes causing households to lose a dollar or more for every dollar earned and severely penalizing marriage. In aggregate, couples today face hundreds of billions of dollars in increased taxes or reduced benefits if they marry. Cohabiting or not getting married has become the tax shelter of the poor.

The analysis of the task force report is quite good, and the recommended policies are quite sound, as far as they go. The shortcoming of the report is that it is too shy about mentioning the real, full solution for poverty that is now readily apparent: expanding to all of the dozens of federal, means-tested welfare programs the enormously successful, fixed, finite block grants of the 1996 reform of AFDC. All responsibility for welfare should be sent to the states, where each state can fully redesign its welfare system from the ground up, based on the enormous wealth and experience we now have about what does not work.

**Winning the War on Poverty: How the States Can Close the Deal**

Reagan’s top welfare policy expert, Robert Carleson, explained the key to how the states can reorganize welfare to win the War on Poverty.

---

90 Ibid.
92 Task Force on Poverty, Opportunity and Upward Mobility, supra note 65, p. 16.
93 Ibid.
94 Ibid.
95 Ibid.
which means categorically eliminating poverty. Carleson wrote: “Able-bodied people must work first in order to receive any welfare benefit; benefits will be earned before the money flows.”

Carleson’s advice to tie all public assistance for the able-bodied to showing up for work first shows how reform could eliminate poverty in America. That is because already under current law – for anyone who works full-time in America – the minimum wage, plus the Earned Income Tax Credit, plus the Child Tax Credit, equals or exceeds the poverty level for every possible family combination, including single persons with or without children:

- For a single person working full-time (40 hours per week), at the current federal minimum wage of $7.25 an hour, annual earnings equal $15,080 a year. In addition, that person qualifies for an Earned Income Tax Credit in 2016 of $506, for a total income for the year of $15,586, exceeding the federal poverty level for 2016 for a single person living alone at $11,880.

- For a single person working full-time with one child, the Earned Income Tax Credit increases for 2016 to $3,373. The family would receive an additional $1,000 per year from the Child Tax Credit. Adding income from full-time work at the minimum wage equals a total for the year of $19,453 in income, well above the poverty level for 2016 for a single person with one child: $16,020.

- With two children, the Earned Income Tax Credit for 2016 increases to $5,572, and the Child Tax Credit to $2,000. With $15,080 from full-time work at the minimum wage, that totals $22,652 in annual income, while the poverty level for 2016 for a single person with two children is $20,160.

- With three children, the Earned Income Tax Credit for 2016 increases to $6,269, and the Child Tax Credit to $3,000. With full-time work at the minimum wage, family income would total $24,349, while the federal poverty level for 2016 for a single person with three children is $24,300.

Clearly, the fundamental solution to poverty is work and jobs for the poor. If we could just get the poor into jobs and work, we can eliminate poverty entirely. Block-granting welfare back to the states can be a means of achieving that, through further reforms the states could adopt with those block grants, which will be discussed below. Achieving this reform also would make welfare reform dramatically pro-growth, by pumping waves of increased labor into the economy.

The full breakout from poverty is tied to intact families. When fathers “stick around,” work full-time, and contribute to the welfare of their children, that adds at least another $15,080 a year to the family’s income level. That is why there is no poverty among two-parent families when both parents are working full-time. State-based welfare reform under block grants can achieve that as well.

What could states do with all the new control over the funds resulting from block-granting all means-tested welfare programs to the states? The fundamental concept in designing a new welfare system is to focus on the basic incentives. All the perverse, counterproductive incentives for non-work, family breakup, and childbearing outside of marriage should be eliminated and replaced with positive, pro-growth incentives for work, savings, investment, entrepreneurship, prosperity, and marriage before childbearing.

The basic strategy is to rely on modern labor markets as much as possible to provide essential income support for the poor and lower-income families. That in turn would minimize the burden on taxpayers and government spending for providing for the basic needs of the poor and low-income families. With incentives to inspire the low-income population to work, that population would join in contributing to a booming economy.

Moreover, when the able-bodied must work to receive benefits, that reverses current incentives to favor marriage before childbearing, because every man and woman would know that someone will have to work to support every

---

96 Carleson and Zeiger, p. 124.
child. There would no longer be any free benefits just for bearing a child. That eliminates any incentive for childbearing outside of marriage and creates powerful incentives for marriage first, so there will be a husband and father, as well as a wife and mother, who can help share the responsibility for work to support the child and the family.

Exactly how to do this would be left up to each state to experiment and compete in a national, 50-state competition. There would be no further requirements or prescriptions in the federal legislation beyond the three stated above, which includes a requirement for work for the able-bodied.

For this Roadmap paper, the Working Group on Poverty and Welfare Reform recommends a policy for each state to choose to implement with this block-grant revolution. This policy would guarantee the elimination of poverty for any family with at least one adult willing to work full-time.

The foundation of this policy would be to tie all benefits for the able-bodied to showing up for work first, embodying the original Reagan concept of workfare. Those who reported to their local welfare office before 9:00 a.m. would be guaranteed a work assignment somewhere paying the minimum wage in cash for a day’s work, eight hours. A private job assignment would be the top priority, but if that is not available for that day, the applicant would be assigned to some government-directed activity, serving the community in some way. The worker would be paid in cash at the end of the day. Those who needed more money would come back for work again the next day.

The government would provide free day care for those with small children who desired it, just as is done today under TANF. While the children are in day care, Medicaid-financed doctors would be available to examine and treat them if necessary and desired.

For the adults who come back for work regularly, the welfare office would find them a private job assignment, just like for-profit temp agencies do in the private sector. Indeed, local welfare offices could be contracted out to such private temp agencies, especially if the local welfare bureaucracy proves unsuccessful in finding private-sector jobs for the poor in need.

Organizing local employers to offer such jobs would be a function for private charitable efforts, as well as the welfare administrators. In some prosperous local economies, employers can be ready and available to absorb everyone who shows up needing work. Organizing that can be a function of local Chambers of Commerce and other local business groups, as well as local church organizations. The more people and groups involved in this, the better for everyone. Such a system would promote real social solidarity.

Those who work a minimum number of hours each month would get a Medicaid voucher sufficient to purchase basic private health insurance. Those who work for a continued period establishing a regular work history would be eligible for housing assistance focused on help in purchasing a home.

As discussed above, full-time work at the minimum wage, plus the Earned Income Tax Credit, plus the Child Tax Credit, equals or exceeds the poverty line for every family combination. But note that every child comes with a father somewhere, and under this system fathers would no longer have any excuse not to help provide for their children, because doing so would not disqualify the family for any benefits. These fathers consequently could further supplement the family income above the poverty line through their own work. This altogether is plenty adequate as a minimum safety net.

The state can choose to provide additional assistance for transportation if it deems that desirable. It can provide additional assistance for education and training. But that should not be allowed to become an excuse for extended non-work, which is a proven problem with such programs. Preferably, education and training can occur at night, with child care provided if necessary. The state also could choose to provide additional wage supplements to the extent it

97 This is only in return for work, so it is not the guaranteed national income that liberal welfare rights advocates have demanded over the years. But, actually, it is the true, “moral” equivalent of that demand, in that the poor morally receive that income in return for work.
thinks that is necessary, keeping in mind that any benefit that has to be phased out as income rises would begin to reestablish the Poverty Trap tax.

Consider how this system reverses all of the perverse incentives of the current welfare system into incentives for positive, productive actions. The most important proposition is that the incentives for family breakup and childbearing outside of marriage are eliminated entirely by conditioning all public assistance for the able-bodied on reporting for work first. No free benefits are available for bearing a child out of wedlock. If the mother has a child without a husband, the mother must go to work to support the child. Even the Child Tax Credit can and should be tied to work, as the EITC already is.

Moreover, there is nothing to be gained, and consequently no incentive, under such a system by avoiding marriage or by couples splitting up. No benefits are provided to the mother for being unmarried. A government welfare check does not become a substitute for a working husband. If the father has to work to support himself anyway, and will be charged for child support, then he has no economic incentive to stay away from the family.

Since living together will reduce living expenses that the couple will have to work to pay for in any event, the incentives under this system are for family unification rather than family breakup. Couples staying together can help each other by sharing the necessary work if they desire. A single mother could avoid work only by marrying a working husband. So the system provides reinforcing economic incentives for marriage. Alternatively, a single mother may return to live with her own parents to reduce living expenses and the need to work to pay for them. This is another form of family reunification, which also reduces the dependency burden on taxpayers.

The incentives for non-work are reversed by this proposal as well. There is nothing to be gained under this system by not working. No benefits are given to those who choose not to work. So there is no work disincentive dragging down the poor. Rather, the incentive is to take whatever private-sector job is available, since the able-bodied will have to work to support themselves in any event, and in the private sector the worker will gain skills, raises, promotions, and new opportunities over time. Instead of taxpayers paying the bottom 20 percent of income earners $1 trillion a year not to work, employers would be paying them much more to work. That is the fundamental essence of this reform.

This work safety net policy effectively eliminates the poverty trap tax as well. Since the able-bodied have to work anyway to get assistance, they would not be losing benefits by working, but gaining benefits (income). When the able-bodied have to work to receive public assistance, that public assistance effectively becomes part of the compensation for working. Some benefits, such as free child care for the poor who work, would still be phased out as income rises. But that would not nearly produce the poverty trap tax of the current system.

Indeed, a work requirement for the able-bodied should be adopted even for Medicaid, which would eliminate the poverty trap tax for that biggest of all welfare programs. The poor would not lose Medicaid by working, but rather would have to work to gain it. Moreover, workers would not lose their health coverage by gaining raises over time, if their private-sector job comes with employer-provided health insurance.

This system automatically shuts down the gaming that currently results when a welfare recipient takes an unreported job off the books and continues to draw benefits. That is because anyone who already has a job won’t be free to show up for the day jobs in the new system. The number of people showing up for the guaranteed day jobs would be sharply constrained, limited to those who have truly fallen on desperate times.

Indeed, for those who do show up for these jobs, even their need is likely to be short term, as the incentive is for them to take available private-sector jobs that open up. People are not going to show up for these day jobs for years, as many do for free welfare.

In addition, for those who do show up, their public support will be minimized in any event, as the state agency finds them private employment that will provide the bulk of their support in place of the taxpayers. That private employment will
grow into or lead to permanent employment, growing the worker completely out of public assistance with wage gains due to experience, learned skills, promotions, and the new opportunities that work will lead to over time.

The resulting incentives would reduce dependency, and the burden on taxpayers, in other ways too. Under the current free welfare system, working at modest-income jobs makes a man economically harmful to his low-income family, and the free welfare becomes an economic substitute for husbands, as discussed above. It is not surprising then that young men in low-income communities lose interest in work.

But under the new system based on work, working makes a man more desirable to the opposite sex, as he becomes a means for a woman to avoid otherwise necessary work. The incentive consequently reverses to promote work.

These incentive effects all add up to a changing culture. Everybody in the neighborhood, except maybe women supported by working men, is going to work. That becomes reestablished as the social norm. Moreover, having babies without husbands and family breakup will be recognized by everyone as costly practices not to be emulated. Bearing children only after marriage will be recognized as the smart practice. These new cultural realities will further encourage socially productive choices and actions.

Adding up all the positive effects of all the reversed disincentives resulting from the reform indicates the dramatic potential for reduced costs and burdens on taxpayers. As discussed above, only a fraction of the able-bodied receiving benefits under the current system would show up for the guaranteed offer of work. The rest would get private-sector jobs or marry someone with a private-sector job. Those who do show up for the guaranteed work would do so for only a short period of time, until they can find a private-sector job. Moreover, even those who show up will soon end up assigned to private-sector work, earning their own benefits through productive work paid for by private-sector employers rather than by overburdened taxpayers.

Reduced childbearing outside of marriage and family breakup produced by the changed incentives will result in far less social need. The resulting transformation of the cultural environment would reinforce all of these positive effects. The end result would be that the new system would cost only a fraction of the current system, ultimately saving trillions of dollars over the years, while breaking the poor out of the poverty trap.

Even more savings would result from the administrative simplicity of the new system. There would be no need to maintain and investigate eligibility requirements under this system. The incentives will take care of that adequately. If Warren Buffet or Bill Gates wants to show up for a work assignment before 9:00 a.m., no big deal. Trying to weed out higher-income people from showing up and working at an assigned day job is not worth the administrative costs of trying to enforce any such limitation. This would also save lower-income people in need of assistance a lot of hassle and trouble in dealing with requirements to demonstrate their need.

The very structure of the new system would weed out automatically those who manage to work surreptitiously and nevertheless continue to receive benefits for which they no longer qualify due to that work and resulting income. We know for sure that no one can be in two places at the same time, so anyone who already has a job will not be able to show up and work at the day jobs – unless their other job is at night, in which case, more power to them; we don’t need to waste worry and devote resources to counter such “excessive” work.

This new system would categorically end poverty in America, finally winning the War on Poverty. Everyone would have a place to go where they would be assured work in return for a sufficient income to keep them above the poverty line. Some would still choose not to work even though they are capable of doing so. But they should be free to make that choice, as long they do not leave children suffering in neglect as a result. They would still always be backed up by the safety net, and they would have their compensating reasons for making that choice. They may have friends or relatives taking care of their needs, or they may have other
arrangements. As long as this was their free choice, it is not real poverty. It is chosen leisure.

Of course, for the disabled who cannot work, or for retirees who should no longer be expected to work, a separate system would provide for their needs. Under the personal accounts for Social Security reforms advanced by the Social Security Working Group in a forthcoming Roadmap paper, every worker would have private disability insurance, or Social Security disability protection if that is their choice. Seniors would enjoy much higher retirement incomes due to the savings and investment in their personal accounts, effectively eliminating poverty among seniors. Generous programs should be provided for those who cannot work, or no longer should work, who nevertheless would otherwise remain poor, ensuring they would not suffer in poverty. The cost of such safety net programs would not remotely be significant enough to outweigh the valid social need.

Moreover, it’s useful to keep in mind this system would replace a vast welfare-state empire costing more than $10 trillion over the next 10 years and would cost only a fraction of that, with much better results. In a modern, civilized society, the public is going to politically demand some social safety net for the poor more assured than private charity alone. These proposed reforms provide such a safety net at tremendous financial and social savings, and further contribute mightily to economic growth. There is no other politically feasible way to achieve those same savings.

In other words, a social safety net is going to be necessary in any event. Why would anyone want to provide such benefits to the able-bodied without requiring work first?

These reforms are ultimately feasible because, again as Charles Murray and Robert Rector have shown, we are already spending far more than enough to eliminate poverty in America. Replacing the enormously counter-productive incentives of the current system with productive incentives that inspire the lower-income population to work and to establish and maintain intact families would result in enormous savings to taxpayers as compared to the current system, while enabling us to categorically eliminate poverty in America.

Some on the left may complain that the poor will be deprived of dignity if they have to work to gain the basic necessities of life. Those with this view believe somehow that we owe everyone a living at taxpayer expense. The great majority of Americans will not share this perverse moral view. It is living at the expense of others, the taxpayers, when you are perfectly capable of providing for yourself, that is undignified.

But such policies would again be up to each state to choose. The federal policies advocated here would simply give them the power to choose. If states want to adopt state-level versions of the current failed national policies, they would be free to make that choice. Maybe that is what California, Massachusetts, and New York would choose. Or maybe this new freedom to choose would stimulate political revolutions in those states as well.

**Conclusion**

The reform described here would promote economic growth. Instead of taxpayers paying the bottom 20 percent of the income ladder a trillion dollars a year not to work, private employers would be paying them more, to work. The result would be a powerful, transformative boost to economic growth and prosperity, especially for the poorest 20 percent.

In addition, with incomes for the poor coming from work rather than government payments for broken families, the welfare incentives for family breakup would be eliminated. Those perverse incentives would be replaced instead with incentives for family formation and maintenance, so parents could share the necessary work and child care and child-raising responsibilities.

The basic strategy of this reform is to rely on modern labor markets as much as possible to provide essential income support for the poor and lower-income families, thereby minimizing the burden on taxpayers. With incentives inspiring them to work, low-income Americans would contribute to a booming economy and so earn higher incomes. And with incentives inspiring them to form and maintain intact families – replacing incentives for family breakup and out-
of-wedlock births – poor and low-income families would function more effectively and would be empowered to provide a better environment for raising their children.

The reform thus would end the poverty trap and free the nation’s poor to become productive citizens and raise children prepared for better lives than their parents had. In other words, the reforms in their entirety would categorically eliminate poverty, ultimately winning the War on Poverty, at long last.
About the Authors

Peter Ferrara is senior fellow for entitlement and budget policy at The Heartland Institute and a senior fellow at the Social Security Institute. He served in the White House Office of Policy Development under President Ronald Reagan and as associate deputy attorney general of the United States under President George H.W. Bush. He is a graduate of Harvard College and Harvard Law School.

Ferrara is author of several books, including The Obamacare Disaster, from The Heartland Institute, President Obama’s Tax Piracy, and America’s Ticking Bankruptcy Bomb: How the Looming Debt Crisis Threatens the American Dream – and How We Can Turn the Tide Before It’s Too Late. Ferrara’s latest book (Heartland Institute, 2015) is Power to the People: The New Road to Freedom and Prosperity for the Poor, Seniors, and Those Most in Need of the World’s Best Health Care.

Lewis K. “Lew” Uhler is founder and president of the National Tax Limitation Committee, one of the nation’s leading grassroots taxpayer advocates. With offices in the Sacramento area and Washington, DC, NTLC works with the White House, members of Congress, legislators in states across the nation, and grassroots organizations to limit state and federal spending through legal restrictions and constitutional change.

Uhler has been at the forefront of the national movements for a tax limitation/balanced budget amendment to the United States Constitution and for term limits. He has written numerous articles and opinion pieces on taxes and spending. In 2010, Uhler co-authored with Erick Erickson the book Red State Uprising: How to Take Back America. Uhler also wrote the book Setting Limits: Constitutional Control of Government, with a foreword by Milton Friedman, published in 1989. Uhler speaks internationally on fiscal issues and has appeared on numerous national, regional, and local television and radio programs and has been widely quoted in the print media.

About the National Tax Limitation Committee

The National Tax Limitation Committee (NTLC) was organized in 1975. Its mission is to provide national leadership to achieve the optimal size and functions of government and promote candidates and initiatives that support these goals.

NTLC and its foundation, the National Tax Limitation Foundation (NTLF), have organized numerous conferences and seminars around the nation on critical issues. Uhler speaks regularly at the annual Conservative Political Action Conference (CPAC) in Washington, sponsored by the American Conservative Union (ACU), on whose board he served for many years. NTLC’s operating philosophy has always been to partner with other groups and individuals in the accomplishment of mutual goals. NTLC and NTLF are further supported by a distinguished Board of Advisors.

For more information, visit our website at www.limittaxes.org or visit us at 1700 Eureka Road #150A, Roseville, CA 95661.

About The Heartland Institute

The Heartland Institute is a national nonprofit research and education organization based in Arlington Heights, Illinois. We are a publicly supported charitable organization and tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Heartland is approximately 5,500 men and women funding a nonprofit research and education organization devoted to discovering, developing, and promoting free-market solutions to social and economic problems. We believe ideas matter, and the most important idea in human history is freedom.

Heartland has a full-time staff of 38. Joseph Bast is cofounder, president, and CEO. Dr. Herbert Walberg is chairman of the 10-member Board of Directors. Approximately 250 academics participate in the peer review of its publications and more than 200 elected officials pay annual dues to serve on its Legislative Forum.

For more information, visit our website at www.heartland.org, call 312/377-4000, or visit us at 3939 North Wilke Road, Arlington Heights, Illinois.