Goodman Institute
Turning Ideas Into Policy

Reforming Welfare

The War on Poverty began in 1965. Half a century later, America has spent more than $26 trillion on that effort,[1] four times what we have spent on all the military wars from the American Revolution to the present.[2] What do we have to show for all that spending?

The amazing success of the 1996 reforms provide the basis for now proceeding finally to eliminate poverty in America.

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In 1966, there were 28.5 million Americans in poverty.[3] The poverty rate that year was 14.7% and it had been declining steadily throughout the 1950s. Yet by 2014, the poverty rate was 14.8% and the number of Americans in poverty reached an all-time high of 46.7 million that year. Apparently, we fought the War on Poverty, and poverty won.

How Much Are We Spending to Eliminate Poverty?

Strange as it may seem, there has never been an official count of the number of federal anti-poverty programs or an accounting of the amount the federal government is spending on all of them each year. Nonetheless, we appear to be funding as many as 200 means-tested, poverty programs[4] and spending as much as $1 trillion a year. That's an amount equal to about $20,000 for every poor person in America, or $80,000 for a family of four.

The federal government, often jointly with the states, sponsors 13 food and nutrition programs, 27 low income housing programs, 23 health programs for low income people, 31 federal employment and training programs, 24 federal child care programs, 28 federal child welfare and child abuse Programs, at least 3 cash assistance programs, and 34 social services programs.[5]

Are the Poor Really Poor?

Besides reporting the official poverty rate, the Census Bureau collects comprehensive data on the living conditions of the poor.

[1]Rector et al. reported in 2009 that the total spent on the War on Poverty from 1965 until 2008 was $16 trillion. Robert Rector, Katherine Bradley, and Rachel Sheffield, *Obama to Spend $10.3 Trillion on Welfare: Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor* (Washington, DC: The Heritage Foundation, 2009), p. 12. But that same source also reported that another $10 trillion would be spent on it from 2009 to 2018. So the total spent on the War on Poverty by now is actually $26 trillion, increasing by at least a trillion dollars a year.
[2]Robert Rector, Katherine Bradley, and Rachel Sheffield, *Obama to Spend $10.3 Trillion on Welfare: Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor* (Washington, DC: The Heritage Foundation, 2009), p. 12.
[3]Table 2. Poverty Status of People by Family Relationship, Race and Hispanic Origin: 1959 to 2016, Historical Poverty Tables: People and Families, 1959 – 2016, United States Census Bureau, Washington DC, www.census.gov.
[4]Peter J. Ferrara, *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* (Arlington Heights: Heartland Institute, 2015), pp. 84-86.
[5]Ferrara, pp. 84-86.

These data show that nearly three-quarters of poor households own a car; nearly a third own two or more cars. In addition, 80% of poor households have air conditioning, while in 1970 only 36% of the entire U.S. population enjoyed air conditioning. Moreover, 97% of poor households own a color TV, with over half owning 2 or more; 78% own a VCR or DVD player, 62% have cable or satellite TV, 89% own microwave ovens, more than half own a stereo, and more than a third own personal computers and automatic dishwashers. A third of poor households have both cellular and landline phones.[6]

Steven Pinker writes:[7]

> Today, the poor are as likely to be overweight as their employers, and dressed in the same fleece, sneakers, and jeans. The poor used to be called the have nots. In 2011, more than 95 percent of American households below the poverty line had electricity, running water, flush toilets, a refrigerator, a stove, and a color TV. (A century and a half before, the Rothschilds, Astors, and Vanderbilts had none of those things). Almost half of the households below the poverty line had a dishwasher, 60 percent had a computer, around two-thirds had a washing machine and a clothes dryer, and more than 80 percent had an air conditioner, a video recorder, and a cell phone. In the golden age of economic equality in which I grew up, middle class "haves" had few or none of those things.

Although the federal government (and therefore federal taxpayers) funds most entitlement programs, state governments typically control the spending.

We define poverty as money income. But we give nearly all the $1 trillion per year in non-money, in-kind benefits. Because these benefits do not show up as money, the number of people in poverty is never reported as diminishing. These benefits have come to be called the "hidden welfare state."

Pinker explains:[8]

> The sociologist Christopher Jencks has calculated that when the benefits from the hidden welfare state are added up, and the cost of living is estimated in a way that takes into account the improving quality and falling price of consumer goods, the poverty rate has fallen in the past fifty years by more than three-quarters, and in 2013 stood at 4.8 percent.

Need versus Aid

Although the federal government (and therefore federal taxpayers) funds most entitlement programs, state governments typically control the spending. So how are welfare dollars distributed among the states? Not, it appears, based on need. As the figure "Need vs. Spending" (top of next page) shows:

- New York has 7.3% of the nation's poverty population; but the state is getting 9.5% of federal Medicaid dollars.
- By contrast, Texas has 10.5% of those in poverty, but receives only 6.5% of federal Medicaid dollars.

[6]Robert Rector, *How Poor Are America's Poor?* Heritage Foundation Backgrounder No. 2064, Heritage Foundation, Washington, DC, August 27, 2007.
[7]Steven Pinker, *Enlightenment Now: The Case for Reason, Science, Humanism, and Progress*, p.117.
[8]Pinter, p. 116.

- Florida, with 7.7% of the poverty population, gets only 3.8% of Medicaid dollars.

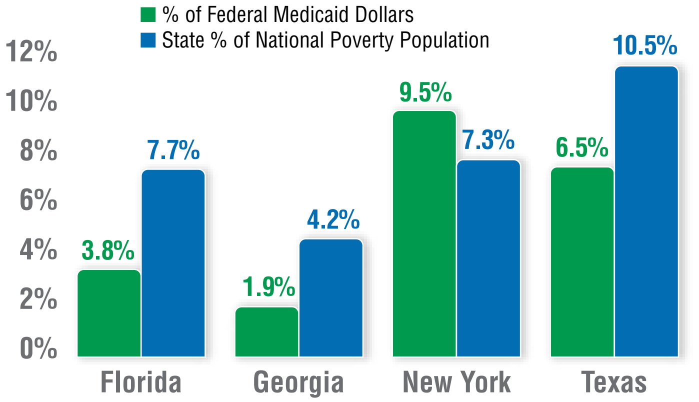
Although federal aid gets close to reflecting actual need in such states as California and Colorado, in other states it is wide of the mark. For example:

- Vermont gets twice as much as it should, based on its share of those in need.
- New York and Maryland are getting almost one-third more and Oregon is getting almost one-fourth more.
- Massachusetts gets almost half again what could be justified by its poverty population.
- On the other hand, Alabama, Florida, Georgia, Nebraska, South Dakota, Utah, and Wyoming are getting about half their fair share.
- Alaska gets 1/6th; Delaware gets 1/7th; and Hawaii gets 1/9th.

FIGURE I

Need vs. Spending

(Percent of National Poverty v. Percent of Federal Medicaid Dollars)



Source: Calculated from Exhibit 16. Medicaid Spending by State, Category, and Source of Funds, FY 2016, MACStats: Medicaid and Chip Data Book, MACPAC, www.macpac.gov;https://www.macpac.gov/wp-content/uploads/2015/12/MACStats-Medicaid-CHIP-Data-Book-December-2017.pdf;Poverty By State, Talk Poverty, A Project of the Center of America Progress,www.talkpoverty.org, https://talkpoverty.org/state-year-report/alabama-2017-report/; Census Bureau, www.census.gov.

Cause of Poverty: Failure to Work

In 1960, nearly two-thirds of households in the lowest-income one-fifth of the population were headed by persons who were working.[9] But by 1991, only one-third of household heads in the lowest-income one-fifth were working, and only 11% were working full-time, year-round.[10]

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 an historic economic boom creating millions of jobs. Millions of illegal aliens 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.

Instead, there is mounting evidence that the combined effects of the welfare system and the tax system are discouraging work and encouraging non-work.

A 1996 Urban Institute study by Linda Ginnarelli and Eugene Steuerle found that the poor faced effective marginal tax rates of 70% to 101%.[11] 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." Similar findings come from a study by

[9]U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 80, Income in 1970 of Families and Persons in the United States, p. 26.

[10]U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 180, Money Income of Households, Families, and Persons in the United States: 1991, p. 7.

[11]Linda Ginnarelli and Eugene Steuerle, "The Twice Poverty Trap: Tax Rates Faced by AFDC Recipients," Washington DC: Urban Institute, 1996.

Boston University economist Laurence Kotlikoff and his colleagues in 2002.[12]

A seminal experiment by the federal government in the 1970s laid the groundwork for these studies. Under the demonstration, the government provided a generous guaranteed income to beneficiaries in Seattle and Denver, regardless of whether they were working or not. 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 guaranteed income given to low-income workers, they reduced their labor and earnings by 80 cents.[13]

Cause of Poverty: Lack of Intact Families

Bearing children outside of marriage is the second key cause of poverty, after non-work. The poverty rate for female-headed households with children is 44.5%, compared to 7.8% for married couples with children. The poverty rate for married black Americans is only 11.4%, while the rate for black female-headed households is 53.9%. Moreover, it is primarily these single-parent families that remain poor and dependent on welfare for the long term.

Indeed, single-parent families perpetuate poverty into the next generation. Children raised in single-parent families are 7 times more likely to become welfare recipients as adults. The negative effects on children from single-parent families, and crime resulting from bearing children outside of marriage, also perpetuate poverty long term. Roughly 80% of all long-term poverty occurs in single-parent homes.[14]

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% in 1965, to 49% in 1975, to 65% in 1990, to about 70% in 1995, where it remains today.[15]

Among Hispanics, the rate today is 53%. Among non-Hispanic whites, births outside of marriage increased from 4% in 1965, to 11% in 1980, 21% in 1990, 25% in 1995, to 29% today. Among white high school dropouts, the rate of births outside of marriage is 48%. Among Americans overall, births outside of marriage have soared from 7% when the War on Poverty began to 40% today. Basically, family structure among the lower-income population has been decimated since the War on Poverty began.[16]

Out-of-wedlock births and single-parent families in turn have very negative effects on children in general, a fact documented by a wealth of data, research and studies. The effects include lower educational achievement, failing school and being required to repeat grades, higher dropout rates, lower IQ, increased drug abuse, mental illness, suicide, teenage crime, sex and pregnancy.[17]

[12]Jagadeesh Gokhale, Laurence J. Kotlikoff, and Alexander Sluchynsky. "Does It Pay to Work?" Boston University Working Paper, November 1, 2002. https://www.kotlikoff.net/content/does-it-pay-work. [13]SRI International, Final Report of the Seattle-Denver Income Maintenance Experiment, Vol. I, Design and Results (Washington DC: Feb. 25, 1991).
[14]Rector et al., p. 25.
[15]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 with Walter Williams," The Wall Street Journal, January 23-23, 2001, p. A13; "Blacks Struggle with 72 Percent Unwed Mothers Rate," Jesse Washington, NBC News, July 11, 2010; "For Blacks, the Pyrrhic Victory of the Obama Era, Jason L. Riley, Wall Street Journal, November 4, 2012.
[16]Roger Clegg, "The Latest Statistics on Illegitimate Births," National Review, October 4, 2012.
[17]These sources are reviewed in Peter J. Ferrara, "Welfare" in Peter J. Ferrara, ed. Issues '94, (Washington DC: Heritage Foundation, 1994).

Why is Anyone Poor?

What makes the large number of people living below the poverty line so surprising is that it is almost impossible to be poor in America today if you work full-time. That is because ***under current law*** the minimum wage plus the Earned Income Tax Credit and the Child Tax Credit (now doubled under tax reform) equal or exceed the poverty level for virtually all family combinations.

As Table I shows:

- The poverty threshold in 2018 for a single person with no children is $12,140.[18] The federal minimum wage in 2018 is $7.25 per hour, although 29 states and the District of Columbia now have a higher minimum wage.[19] At the federal minimum wage, full-time work year-round pays $15,080.
- The poverty threshold in 2018 for a single parent with one child is $16,460.[20] The parent working full-time at the federal minimum wage would again earn $15,080 for the year. The parent would also receive an Earned Income Tax Credit (EITC) of $3,468 and a Child Tax Credit (CTC) of $2,000,[21] for a total income of $20,548.
- The poverty threshold in 2018 for a single parent with two children is $20,780. In addition to a minimum wage income, the parent would receive an Earned Income Tax Credit of $5,728 and Child Tax Credits of $4,000, totaling $24,808.
- The poverty threshold in 2018 for a single parent with three children is $25,100. For this parent, the Earned Income Tax Credit would be $6,644 and the Child Tax Credits of $2,000 would add another $6,000, for a total of $27,724 for the year.

TABLE I

Income, Poverty and Work: 2018

	Adult	Adult 1 child	Adult 2 children	Adult 3 children	Adult 4 children	Adult 5 children
Min. Wage Income[1]	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000
EITC*		3,468	5,728	6,644	6,644	6,644
CTC*	—	2,000	4,000	6,000	8,000	10,000
Total Income	$15,000	$20,548	$24,808	$27,724	$29,724	$31,724
Poverty Level	$12,140	$16,460	$20,780	$25,100	$29420	$33,740

* Earned Income Tax Credit
* Child Tax Credit
[1] The federal minimum wage is $7.25 per hour.

There is no possibility of poverty for two married adults both working full-time jobs. That is why there is no poverty at all among two-parent families when both parents are working full-time.

As Table II (next page) shows:

- The poverty threshold in 2018 for two married adults with no children is $16,460. But both people working full-time jobs would produce a family income of at least $30,160.
- The poverty threshold in 2018 for two married adults and one child is $20,780. But both adults working full -time jobs would again produce a family income well above that figure. They would also get an Earned Income Tax Credit of about $2,402 and a child tax credit of $2,000.
- The poverty threshold in 2018 for two

[18]Office of the Secretary, Department of Health and Human Services, 83 FR 2642, January 18, 2018.
[19]2018 Minimum Wage by State, National Conference of State Legislators, http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx.
[20]Office of the Secretary, Department of Health and Human Services, 83 FR 2642, January 18, 2018.
[21]Idem

married adults and two children is $25,100. With an EITC of $4,301 and CTC of $4,000, total family income would equal $38,461.

TABLE II
Income, Poverty and Work: 2018

	2 Adults	2 Adults 1 child	2 Adults 2 children	2 Adults 3 children	2 Adults 4 children	2 Adults 5 children
Min. Wage Income¹	$30,160	$30,160	$30,160	$30,160	$30,160	$30,160
EITC*		2,402	4,301	5,003	5,003	5,003
CTC*	—	2,000	4,000	6,000	8,000	10,000
Total Income	$30,000	$34,562	$38,461	$41,163	$43,163	$45,163
Poverty Level	$16,460	$20,780	$25,100	$29,420	$33,740	$38,060

* Earned Income Tax Credit
* Child Tax Credit
¹ The federal minimum wage is $7.25 per hour.

- The poverty threshold for 2018 for two married adults and three children is $29,420. With an EITC of $5,003 and CTC of $6,000, total family income would equal $41,163.

Our Previous Experience with Welfare Reform

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the share of federal spending on AFDC (Aid to Families with Dependent Children) was returned to each state in a “block grant” to be used for 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.

These reforms were remarkably successful,[22] exceeding even the predictions of the 1996 act’s 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 began to have an impact, to 4.6 million in 2006.[23] The rolls were reduced even more in states that pushed work most aggressively: Wyoming (97 percent), Idaho (90 percent), Florida (89 percent), Louisiana (89 percent), Illinois (89 percent), Georgia (89 percent), North Carolina (87 percent), Oklahoma (85 percent), Wisconsin (84 percent), Texas (84 percent), and Mississippi (84 percent). By 2006, the percent of the population receiving TANF (Temporary Assistance for Needy Families) 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.[24]

In his book ***Work Over Welfare***, Ron Haskins of the Brookings Institution reports, “from 1993 to 2000 the portion of single mothers who were employed grew from 58% to nearly 75%, an increase of almost 30%,” and “employment

[22]Gary MacDougal, Kate Campaigne, and Dane Wendell, “Welfare Reform after Ten Years: A State-by-State Analysis” (Chicago IL: Heartland Institute, June 2008).
[23]U.S. House of Representatives, Ways and Means Committee, The 2008 Green Book, Section 7, Temporary Assistance for Needy Families, Table 7-8, p. 7-27; Gary MacDougal, Kate Campaigne, and Dane Wendell, Welfare Reform after Ten Years: A State-by-State Analysis (Chicago IL: The Heartland Institute, 2009).
[24]Ways and Means Committee, The 2008 Green Book, Table 7-9, pp. 7-28 – 7-29.

among never married mothers, most of whom join the welfare ranks within a year or two of giving birth, grew from 44% to 66%," an increase of 50%.[25] 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% during the period.[26]

The amazing success of the 1996 reforms provide the basis for now proceeding finally to win the War on Poverty and ultimately eliminating poverty in America.

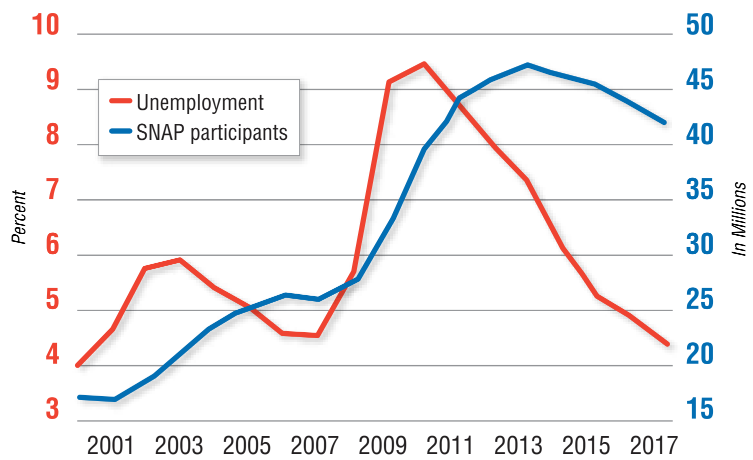
Extending the Reform to Other Programs

The 1996 welfare reform had one big shortcoming: It reformed only one program, AFDC. The federal government operates nearly 200 additional means-tested welfare programs. As Figure II shows, the Food Stamp program, originally designed to help those facing financial hardship when jobs were scarce, now seems to be a substitute for gainful employment.

FIGURE II

Food Stamps vs. Work

SNAP participants vs the unemployment rate, 2000 - 2017



Sources: Bureau of Labor Statistics
U.S. Department of Agriculture

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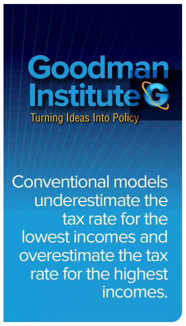
The same reforms that proved wildly successful with the AFCD in 1996 can and should be extended to every one of these federal programs as well. Ideally, all federal means-tested welfare programs would be block-granted back to the states, not individually but in one lump sum, with the states free to use 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.[27]

Federal requirements on the use of these federal block grant 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 retired seniors, children too young to work, and those completely disabled and unable to work.

[25]Ron Haskins, Work Over Welfare: The Inside Story of the 1996 Welfare Reform Law, (Washington D.C.: Brookings Institution, 2006), p. 334.
[26]Ron Haskins, Work Over Welfare, p. 336.
[27]Secure the Safety Net, (Alexandria VA: Carleson Center for Welfare Reform, 2014).

Full text for these Brief Analyses is available at www.goodmaninstitute.org.



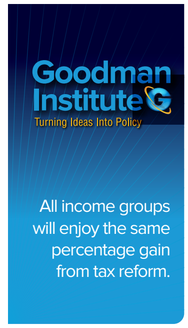
BRIEF ANALYSIS NO. 123 MARCH 28, 2018

Why Do Economists Disagree About Tax Reform?

The Tax Cut and Jobs Act of 2017 represents the most significant change in U.S. taxation since 1986. What difference does it make?

Some studies suggest the reform is regressive. An example is the Tax Policy Center (TPC), which reports that "higher income households receive larger average tax cuts as a percentage of after-tax income, with the largest cuts as a share of income going to taxpayers in the 95th to 99th percentiles of the income distribution."

Others disagree. A new study by Alan J. Auerbach (University of California, Berkeley), Laurence J. Kotlikoff (Boston University) and Darryl Koehler (The Fiscal Analysis Center) finds that the reformed system is just as progressive as the current system – whether measured by lifetime tax rates or lifetime consumption or merely the way the reform treats the very rich.

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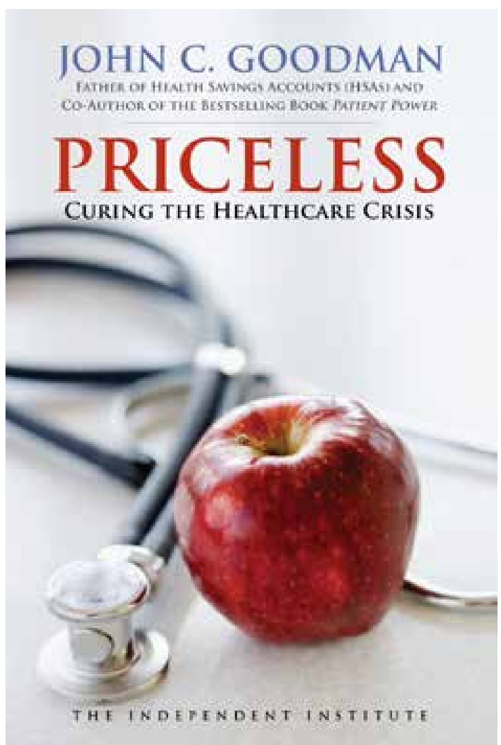
BRIEF ANALYSIS NO. 122 MARCH 28, 2018

Who Benefits From Tax Reform?

Tax reform Is just as fair as the old tax law. Virtually all income groups can expect substantial benefits from tax reform, according to a new study that uses the most sophisticated modeling available to economists.

"Within every age group, the rich will pay essentially the same share of taxes (net of transfer payments) and experience essentially the same percentage increase in living standard as the middle class and poor," said Boston University economist Laurence Kotlikoff, one of the authors of the study

The study shows that the rich will receive more dollars of tax relief, because their tax burden was so much higher to begin with. But the percentage gain is about the same across all income groups, "leaving the new system just as progressive as the system it will replace," he said.



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