US Antipoverty Policy and Reform

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ABSTRACT

Despite decades of a war on poverty that came with proliferating programs and ballooning budgets, the official poverty rate in the United States has stubbornly refused to break from its narrow historical range. This failure stems largely from the methods used to pursue the alleviation of poverty, including a complex and chaotic welfare system that strips the poor of their dignity and their incentive to work. Welfare reform proposals are generally dominated by income support programs such as universal basic income. Although those proposals would indeed simplify the United States' overwhelming welfare system, experiments with such guaranteed income schemes reveal complex problems with incentives and with a potential for politicization that could be damaging. Policymakers should instead turn to block grants to states, a policy that has real-world empirical support and that would alleviate the knowledge problem suffered by the federal government. States, in turn, should administer income support programs tailored to the individual causes of poverty, implementing work requirements for people who are temporarily disadvantaged and providing direct income to people who are truly unable to work.

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Keywords: food stamp, poverty alleviation, public assistance, safety net, social welfare programs, transfer payments, welfare policy, entitlements, block grants, minimum income, poverty

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After more than half a century, America's welfare system can boast few clear successes. Since President Lyndon Johnson first declared war on poverty nearly 50 years ago, the nation has spent almost $15 trillion on government welfare programs and income assistance.[1] Yet despite decades of proliferating programs, expanding goals, and ballooning budgets, the official poverty rate in the United States has stubbornly refused to break from its narrow historical range. Recent poverty rates ranging from 11 percent to 15 percent are only a modest improvement over the 15 percent rate that prompted the Great Society reforms in 1964.[2] America is spending more and more public funds to glean fewer and murkier benefits. Is it time to consider a more radical antipoverty reform program?

Some reform efforts have yielded moderate gains. For example, the 1996 welfare reform efforts refocused programs to be more work and independence oriented. Commentators of many ideological perspectives regard those reforms as broadly successful because they reversed welfare rolls. Yet those preliminary successes were shortly undone following the 2007 recession.[3] President Barack Obama then administratively relaxed eligibility requirements and increased benefits per recipient in 2012.[4] That year, the federal government spent $668 billion on antipoverty programs and transfers.[5] State governments spent another $284 billion.[6] Antipoverty spending is one of the largest federal

1. Michael Tanner, "The American Welfare State: How We Spend Nearly $1 Trillion a Year Fighting Poverty—and Fail" (Policy Analysis 694, Cato Institute, Washington, DC, April 11, 2012).
2. US Census Bureau, *Historical Poverty Tables*, Table 13: Number of Families Below Poverty Level and Rate, accessed July 20, 2016, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html.
3. Gene Falk, "Temporary Assistance for Needy Families (TANF): Welfare-to-Work Revisited" (CRS Report R42768, Congressional Research Service, October 2012).
4. Administration for Children and Families, "Guidance Concerning Waiver and Expenditure Authority under Section 1115" (Information Memorandum 2012-03, July 12, 2012).
5. Tanner, "American Welfare State."
6. Ibid.

“Some researchers argue that poverty has decreased more than the official figures suggest because the US Census Bureau’s calculation method conceals important nuances.”

budget items, falling short only of defense spending and Social Security in 2012.[7] In 2016, only Social Security benefits will receive more federal spending than federal antipoverty programs will.

A complication manifests in the difficult task of appropriately measuring progress against poverty. Some researchers argue that poverty has decreased more than the official figures suggest because the US Census Bureau’s calculation method conceals important nuances.[8] The two largest shortcomings are that the official poverty rate overstates changes in the cost of living,[9] and it does not include all measures of income.[10] For instance, the federal poverty threshold includes only family income that is delivered as a monetary transfer. In-kind assistance, such as food stamps, Medicaid, Medicare, and housing subsidies, is not considered in the official calculations.[11] Indeed, when correcting for the methodological flaws of the official poverty rate calculation, the picture looks a bit better. By correcting for those problems, one study found that poverty fell from 32 percent in 1963 to 8 percent in 2010.[12] Another analysis found that the disposable income growth of a representative American in the 20th percentile income level has risen from 33 percent in 1979 to 46 percent in 2007.[13]

7. Ibid.
8. Bruce D. Meyer and James X. Sullivan, “Five Decades of Consumption and Income Poverty” (NBER Working Paper 14827, National Bureau of Economic Research, Cambridge, MA, March 2009).
9. For a discussion of how inflation indexing can overstate cost of living adjustment calculations, see Congressional Budget Office, “Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code” (Economic and Budget Issue Brief, Congressional Budget Office, Washington, DC, February 24, 2010). One study calculated that cost of living measurement errors overstated poverty measures from the early 1960s to 2005 by 14 percentage points. See Meyer and Sullivan, “Five Decades of Consumption and Income Poverty.”
10. Meyer and Sullivan, “Five Decades of Consumption and Income Poverty.”
11. Scott Winship, “Actually, We Won the War on Poverty,” *Politico*, January 24, 2014.
12. Bruce D. Meyer and James X. Sullivan, “Winning the War: Poverty from the Great Society to the Great Recession,” *Brookings Papers on Economic Activity* 45, no. 2 (2012): 133–200.
13. Scott Winship, “What Has Happened to the Incomes of the Middle Class and Poor? Part Three: The Bronze Age,” *E21*, November 6, 2013.

Such evidence could suggest that poverty programs may have actually been more effective than first meets the eye. One group of researchers reports calculations that suggest that federal antipoverty programs directly caused reductions in poverty of 1 percentage point in 1967 and 13 percentage points in 2012.[14] Another finds that federal programs are especially effective at reducing poverty among elderly people and people with disabilities.[15] President Obama's Council of Economic Advisers recently adopted that line of argument in a progress report on the effectiveness of welfare policy.[16] Noting that after-tax and after-benefit poverty rates decreased since 1967 while "market poverty" rates that include only narrow measures of earned income slightly increased during the same time, the council concluded that the "significant decline in poverty is largely due to programs that . . . increase economic security and opportunity."[17]

Alternatively, it is possible that poverty programs are not primarily or even significantly responsible for those subtle improvements. It does not help that by 2012, roughly a third of all Americans lived in a household that participated in at least one means-tested program.[18] Thinking about poverty reduction solely through the lens of state interventions dulls researchers to the efficacy of the most potent antipoverty "program" discovered yet by humanity: economic growth.[19] From 1990 to 2010, global extreme poverty rates halved, falling from 43 percent to 21 percent as a share of the total population in developing countries. An astounding 1 billion people were pulled from the vicious cycle of poverty and

14. See Christopher Wimer et al., "Trends in Poverty with an Anchored Supplemental Poverty Measure" (CPRC Working Paper 13-01, Columbia Population Research Center, New York, 2013). Note that this study employed the Census Bureau's "supplemental poverty measure" (SPM). Using the SPM, the study actually concluded that "real" poverty is higher than the official poverty rate and that government programs demonstrate greater effectiveness in decreasing poverty with the SPM than with the official rate.
15. Yonatan Ben-Shalom, Robert Moffitt, and John Karl Scholz, "An Assessment of the Effectiveness of Anti-poverty Programs in the United States" (Working Paper 11-19, National Poverty Center, Ann Arbor, MI, June 2011).
16. Council of Economic Advisers, "The War on Poverty 50 Years Later: A Progress Report," January 2014.
17. Ibid, 3.
18. See the US Census Bureau figure at http://www.census.gov/sipp/tables/quarterly-est/household-char/2012/4-qtr/Figure2.pdf.
19. Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012). See also Daron Acemoglu, Simon Johnson, and James Robinson, "Institutions as the Fundamental Cause of Long-Run Growth" (NBER Working Paper 10481, National Bureau of Economic Research, Cambridge, MA, May 2004); Joshua C. Hall and Robert A. Lawson, "Economic Freedom of the World: An Accounting of the Literature," *Contemporary Economic Policy* 32, no. 1 (2014): 1–19; and James Gwartney and Robert Lawson, "Ten Consequences of Economic Freedom" (NCPA Policy Report 268, National Center for Policy Analysis, Dallas, TX, July 2004).

despair after nations adopted free trade and secure property rights.[20] Indeed, nations that take to heart Adam Smith's modest prescription of "peace, easy taxes, and a tolerable administration of justice"[21] enjoy higher growth rates,[22] higher levels of entrepreneurship and innovation,[23] and, most importantly, lower poverty rates than do countries with less economic freedom.[24]

In the United States, economic freedom has been a powerful bulwark in the fight against poverty: states with higher levels of economic freedom also have higher median household incomes, rates of homeownership, and population growth rates.[25] Economically free states also have lower poverty rates, less income inequality, and lower state and local debt levels as a percentage of GDP compared with states with lower levels of economic freedom (and more reliance on government welfare programs).[26] By making government programs the focal point of their conversations on poverty, policymakers neglect to harness the proven solutions that simple free trade and rule of law provides. It is unlikely that government programs have been directly responsible for most or all of the moderate poverty reductions concealed by measurement problems. But even if they were, the issue of mounting program costs would still need to be addressed.

Before policymakers can establish realistic goals, they must first have an accurate picture of the limits that they face. Reducing poverty is very different from building a road or providing defense. Unlike other domains of government involvement that are primarily simple functions of planning and funding, the outcomes of government antipoverty programs are fundamentally constrained by the uncertain dynamism of human agency. Too often, policy discussions prioritize narrow, one-size-fits-all plans while ignoring the incentives and unintended consequences that inevitably result. This is the folly of Adam Smith's famous "Man of System" who "seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board."[27] In reality, humans are complex and often

20. "Towards the End of Poverty," *Economist*, June 1, 2013.
21. Smith's famous prescription was delivered in a lecture in 1755. Quoted in Edwin Cannan, "Editor's Introduction," in Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1904), xl.
22. Ross Levine, "Robert J. Barro, Determinants of Economic Growth: A Cross-Country Empirical Study," *Journal of Comparative Economics* 26, no. 4 (1998): 822–24.
23. Kristina Nyström, "The Institutions of Economic Freedom and Entrepreneurship: Evidence from Panel Data," *Public Choice* 136, no. 3/4 (2008): 269–82.
24. Ian Vásquez, "Ending Mass Poverty," *Economic Perspectives* 6, no. 3 (2001): 18–21.
25. Antony Davies and James R. Harrigan, "Why We Should Care about America's Fading Economic Freedom," *US News & World Report*, September 25, 2012.
26. Ibid.
27. Adam Smith, *The Theory of Moral Sentiments* (London: A. Millar, 1790), paragraph VI.II.42.

unpredictable. The "causes" and contributions to poverty are multifaceted, interdependent, and different for each individual. A person who is impoverished because of a temporary health condition will have a dramatically different set of needs and incentives than a person whose poverty stems from a lifetime of neglect, abuse, or behavioral problems.

Similarly, cultural trends and lifestyle decisions that are far beyond the jurisdiction or control of governments can increase or reduce risk factors for poverty and income immobility. The rise of single parenthood, for instance, is strongly correlated with social immobility,[28] but few would seriously entertain government proposals to "redistribute marriage." On the one hand, even lighter-touch government solutions to those kinds of cultural and lifestyle decisions, such as public programs to promote marriage or abstinence, are often ineffective,[29] and they strike many as needlessly paternalistic.[30] On the other hand, the breakdown of family structure in the United States is also substantially correlated with generous state welfare policies.[31] When possible, government policy should be reformed to cease contributing to those problems. Recognizing that many human decisions that influence poverty are fundamentally beyond the purview of government control means recognizing the limits of policy and adjusting one's expectations accordingly.

There is much work to be done. One major problem hindering welfare effectiveness in America is systemic complexity and technocracy. A complicated ecosystem of federal welfare programs has metastasized into a bureaucratic maze of 126 separate programs managed by seven different cabinet agencies, six different independent agencies, and an alphabet soup of specialized tasks forces, working groups, and subcommittees within.[32] Social planners slice the "poverty problem" into discrete categories—housing, food, health care,

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28. Scott Winship and Donald Schneider, "The Great Gatsby Curve Revisited: Part 1," *E21*, December 30, 2013.
29. For instance, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act reforms included marriage promotion policies as one tool to reduce poverty. Those programs have shown few lasting results despite evidence that children from stable, married families tend to have better life outcomes than do children from single-parent or dysfunctional families. Some social researchers suggest that marriage alone is not a panacea but rather that prioritizing marriage *before* having children should be the focus. See Kristi Williams, "Promoting Marriage among Single Mothers: An Ineffective Weapon in the War on Poverty?" (CCF Research Brief, Council on Contemporary Families, University of Texas, Austin, January 2014); and W. Bradford Wilcox, "Marriage for Single Mothers No Panacea in the War on Poverty," *American Enterprise Institute*, January 6, 2014.
30. "The State Is Looking after You," *Economist*, April 6, 2006.
31. Robert A. Moffitt, "The Effect of Welfare on Marriage and Fertility: What Do We Know and What Do We Need to Know?" (Discussion Paper 1153-97, Institute for Research on Poverty, Madison, WI, 1997).
32. Tanner, "American Welfare State."

child care, and energy needs—to manipulate observed outcomes along stylized measurements. Those overlapping and often insular agencies try to backward-engineer a reduction in poverty by subsidizing and fine-tuning poverty's disparate effects. That structure lends itself to the waste, redundancy, and lack of accountability that has plagued public antipoverty initiatives since their inception. Moreover, that complex technocratic approach removes all control from the people who need it the most: those currently living in poverty.

A more affordable and effective welfare system would place power in the hands of those in poverty. It would recognize that they, and not a network of distant planners, have the best information and ability to make the right decisions to achieve their own prosperity. It would remove the counterproductive disincentives to work that currently thwart welfare beneficiaries' best intentions to achieve self-sufficiency. It would reaffirm the dignity and autonomy of Americans who temporarily fall into financial difficulty and those less fortunate who are simply unable to provide for themselves. It would not attempt to socially engineer fashionable cultural trends. Rather, it would reduce previous government interventions that did try to socially engineer solutions but instead have often made problems worse. Building such a system requires a reevaluation of assumptions about the natures of poverty and planning.

This paper will explore reforms that can bring the United States closer to that kind of better welfare system. A brief overview of the current state of antipoverty programs will be followed by a discussion of the incentive and governance problems that beset program outcomes. Alternative welfare approaches will be explored, including proposals for a guaranteed minimum income and negative income tax, along with the expected benefits those reforms could bring (as well as the shortcomings that could undermine their success). Finally, the potential political economy roadblocks facing such a policy transition will be considered with preventive measures that could lessen the pitfalls. We conclude that the alternative welfare proposals could improve the current system, but political realities may render them unattainable. Welfare reform that is empirically sound and politically sustainable will apply the valuable insights that inform the guaranteed income and negative income tax proposals while implementing legislative safeguards that will prevent a return to the status quo.

THE EVOLUTION OF THE CURRENT SYSTEM

The current welfare system is simultaneously piecemeal and paternalistic. America's inherited common law and civil remedies for poverty—including the traditions of locally provided and managed poorhouses; in-kind and cash transfers to the ill and widowed, called *outdoor relief*; and mutual aid societies—were gradually supplanted (and sometimes legislatively outlawed) by hierarchical federal and state initiatives.[33] Following decades of increased state involvement in welfare functions, the federal government assumed dominance in welfare spending with the advent of the Great Depression. A professional class of social planners, workers, and administrators emerged. Poverty, it was decided, was a scientific problem that required scientific solutions. The poor then became subjects of this new social experiment.[34]

Nestled among the myriad unemployment relief and public works programs attempted by the Roosevelt administration was Title IV of the Social Security Act of 1935: "Grants to States for the Aid to Dependent Children." That modest program committed the federal government to disperse financial aid to the states to administer to single mothers who were unable to provide for their children. Caseworkers developed criteria to distinguish individuals deserving of assistance.[35] Those who controlled the measures then controlled the property rights for welfare relief. Agencies with generous eligibility standards correspondingly could amass greater control of those rights, larger budgets, and more prestigious missions.[36] The expanded supply of welfare assistance accordingly increased its demand; Aid to Dependent Children rolls expanded,[37] as the number of single-mother families increased throughout the 1950s,[38] prompting the Kennedy administration to

"Poverty, it was decided, was a scientific problem that required scientific solutions. The poor then became subjects of this new social experiment."

33. Michael Tanner, *The Poverty of Welfare: Helping Others in Civil Society* (Washington, DC: Cato Institute, 2003).
34. Ibid.
35. Committee on Economic Security, "Aid to Dependent Children," in *Social Security in America* (Washington, DC: Social Security Board, 1937), 233–39.
36. William A. Niskanen, *Bureaucracy and Representative Government* (New Brunswick, NJ: Aldine-Atherton, 1971).
37. Blanche Coll, *Safety Net: Welfare and Social Security, 1929–1979* (New Brunswick, NJ: Rutgers University Press, 1995), 199.
38. Frank Hobbs and Nicole Stoops, *Demographic Trends in the 20th Century* (Washington, DC: US Census Bureau, 2002).

reengineer the program as Aid to *Families* with Dependent Children (AFDC) in 1964.[39]

Paternalistic welfare progressivism truly came of age with the Great Society experiment of the Johnson administration. The War on Poverty required costly ammunition and fine-tuned logistics: scores of specialized programs and armies of administrators divided poverty and tried to conquer problems of housing, hunger, education, employment, health, and child development from above. As in the past, the increase in high-level welfare spending commoved with an increase in welfare recipients. In the 1950s, welfare rolls expanded by 17 percent over the decade. In the 1960s, rolls expanded by 107 percent, mostly after the Great Society reforms.[40] Instead of fighting poverty, the federal government was rather effectively financing it.

By the 1990s, the apparent failure of welfare spending could no longer be ignored. The Clinton administration made good on its promise to "end welfare as we know it,"[41] and it enacted the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). The bill replaced AFDC with the more work-oriented Temporary Assistance to Needy Families (TANF) program. Citing concerns about dependency, increases in out-of-wedlock births, and intergenerational enrollment,[42] legislators introduced welfare block grants to state governments and instructed state officials to design for their constituents the best system that met certain federal criteria. States were expected to institute ongoing work requirements, reduce enrollment numbers and out-of-wedlock births without increasing abortions, and enact a five-year limit on receiving welfare benefits.[43] Aside from a few minor changes to the food stamp program, the sprawling array of other federal antipoverty programs was largely untouched.

The PRWORA reform's effects on program outcomes and beneficiary behaviors were broadly positive,[44] but they were not universally embraced.[45] Poverty rates declined among all families from 11 percent in 1996 to 9.6 percent

39. Michael Tanner and Tad DeHaven, "TANF and Federal Welfare," *Downsizing the Federal Government* (Cato Institute), September 1, 2010.
40. Marvin Olasky, *The Tragedy of American Compassion* (Washington, DC: Regnery, 1992).
41. Barbara Vobejda, "Clinton Signs Welfare Bill amid Division," *Washington Post*, August 23, 1996.
42. See comments from senators regarding the Personal Responsibility, Work Opportunity, and Medicaid Restructuring Act of 1996, 142 Cong. Rec. S8070–76 (July 18, 1996).
43. Personal Responsibility and Work Opportunity Reconciliation Act, Pub. L. No. 104-193, 110 Stat. 2105 (1996).
44. *To Review Outcomes of 1996 Welfare Reforms: Hearing before the House Committee on Ways and Means*, 109th Cong. (July 19, 2006) (statement of Ron Haskins).
45. For a thorough review of the literature on TANF effectiveness, see Rebecca Blank, "Evaluating Welfare Reform in the United States" (NBER Working Paper 8983, National Bureau of Economic Research, Cambridge, MA, June 2002).

in 2002.[46] For female-headed households, the poverty rate dropped from 32.6 percent to 26.5 percent over the same period.[47] Among female-headed households that had dependent children under the age of 18, the rate dropped from 41.9 percent to 33.7 percent.[48] TANF caseloads, too, precipitously declined following the PRWORA reforms, but caseloads had also started to decline the year before reform was enacted.[49] Some of the drop in caseloads that preceded federal reform can be explained by the increase in waivers granted to states to reform welfare policies and enact work promotion programs before 1996.[50] A review of the empirical analyses of the effects of state welfare waivers between 1993 and 1996 reports that most states estimate that roughly 15 percent of the decline in welfare caseloads can be explained by welfare policy changes and that 30 to 40 percent is attributable to improved labor market conditions.[51] Some disagreement remains over what portion of the post-1996 decline in caseloads can be attributed to the PRWORA reforms and what portion can be attributed to lower unemployment caused by high economic growth throughout the 1990s. However, economic expansions have occurred in the past without spurring similar reductions in welfare caseloads. The economic expansion of the 1980s did not reduce the total number of individuals receiving AFDC, and the economic boom of the mid to late 1960s resulted in an increase in welfare caseloads because benefits became more generous.[52] Moreover, some economic analyses indicate that economic growth in the 1990s was responsible for a slim 10 percent of the decline in welfare caseloads between 1996 and 1998.[53] Several studies attribute 28 to 49 percent of the post-PRWORA caseload reductions to the

46. The poverty rate increased slightly following the recession of 2001 and returned to a range of 9.8 percent to 9.9 percent during the middle of that decade. The poverty rate increased to 10.3 percent following the recession of 2008 and has not declined from 11 percent since. See US Census Bureau, *Historical Poverty Tables*, Table 13.
47. US Census Bureau, *Historical Poverty Tables*, Table 4: Poverty Status of Families, by Type of Family, Presence of Related Children, Race, and Hispanic Origin: 1959 to 2014, accessed July 20, 2016, https://www2.census.gov/programs-surveys/cps/tables/time-series/historical-poverty-people/hstpov4.xls.
48. Ibid.
49. TANF caseload data are available on the Office of Family Assistance website, http://www.acf.hhs.gov/programs/ofa/programs/tanf. For AFDC caseload data, see the Administration for Children and Families archive at http://archive.acf.hhs.gov/programs/ofa/data-reports/caseload/caseload_archive.html#afdc.
50. Robert F. Schoeni and Rebecca M. Blank, "What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty, and Family Structure" (Labor and Population Program Working Paper 00-02, RAND, Santa Monica, CA, 2000).
51. Ibid.
52. Michael J. New, "Welfare Reform That Works: Explaining the Welfare Caseload Decline, 1996–2000" (Policy Analysis 435, Cato Institute, Washington, DC, May 7, 2002).
53. See, for example, Council of Economic Advisers, "The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: An Update," August 3, 1999.

TANF reforms.[54] Labor force participation rates among welfare recipients also improved following PRWORA reforms.[55] Empirical studies suggest that roughly two-thirds of postreform welfare recipients found employment after getting off welfare.[56] Still, those associations are tenuous: researchers have difficulty separating reform effects from the influences of simultaneous policy changes like expansion of the earned income tax credit (EITC) and increases in the minimum wage. Unfortunately, those studies shed no light on outcomes for long-term TANF recipients. Notably, the PRWORA reforms appear to have increased earnings and income for program participants, particularly for single mothers.[57]

Although TANF appears to have been a vast improvement over the previous AFDC program, President Bill Clinton's reforms addressed only a small portion of the systemic problems plaguing the US welfare system. The number of separate federal antipoverty initiatives ballooned from 70 in 2003[58] to 126 in 2012.[59] The Obama administration, through the Department of Health and Human Services, administratively rolled back TANF reforms in 2012 by waiving certain state "welfare-to-work" requirements.[60] Eligibility requirements have likewise been significantly loosened under the Obama administration. More than half of the recipients of benefits under the Children's Health Insurance Program (CHIP), EITC, Supplemental Nutrition Assistance Program, and TANF were above the Census Bureau's poverty line in 2010.[61] The PRWORA reforms were a tenuous step in the right direction, but the road to a better welfare system is longer still. To address systemic problems at the root, the insights that motivated the improvement of TANF should be applied to the welfare system broadly.

54. See Council of Economic Advisers, "Technical Report: Economic Expansion, Welfare Reform, and the Decline in Welfare Caseloads: An Update," Executive Office of the President, Washington, DC, September 1999; Geoffrey Wallace and Rebecca Blank, "What Goes Up Must Come Down? Explaining Recent Changes in Public Assistance Caseloads," in *Economic Conditions and Welfare Reform*, ed. Sheldon H. Danziger (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1999), 49–90; and June O'Neill and M. Anne Hill, "Gaining Ground? Measuring the Impact of Welfare Reform on Welfare and Work" (Civic Report 17, Center for Civic Innovation, Manhattan Institute, New York, 2001).
55. O'Neill and Hill, "Gaining Ground?"
56. Maria Cancian et al., "Work, Earnings, and Well-Being after Welfare: What Do We Know?," in *Economic Conditions and Welfare Reform*, ed. Sheldon H. Danziger (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1999), 161–86.
57. Jeffrey Grogger, "The Effects of Time Limits and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families" (NBER Working Paper 8153, National Bureau of Economic Research, Cambridge, MA, March 2001).
58. Tanner, *Poverty of Welfare*.
59. Tanner, "American Welfare State."
60. Administration for Children and Families, "Guidance Concerning Waiver and Expenditure Authority under Section 1115."
61. David J. Armor and Sonia Sousa, "Restoring a True Safety Net," *National Affairs*, no. 13 (2012): 3–28.

PROBLEMS AND ASSUMPTIONS TO ADDRESS

Before we can develop potential solutions, we must secure a firm understanding of the problems that plague the current system. First, the system's piecemeal programmatic complexity expensively reduces the utility and welfare of the poor. Next, social planners sometimes craft programs primarily to serve other interests instead of those of the poor. As a result, the state can maintain power over poor recipients by placing strings on the monopoly of public assistance. Third, the structure of marginal tax rates and number of state-subsidized alternatives to gainful employment generate considerable disincentives to work that leave beneficiaries uncomfortably dependent on these ostensibly temporary programs. Finally, and fundamentally, the fourth flaw that undermines the US welfare state is the simple knowledge problem. Policymakers famously assume that they have the proper knowledge to effectively engineer social outcomes. We will now consider those problems in more depth.

Complexity

Welfare provision in the United States is counterproductively complex. With no particularly concrete plan, disparate political and private actors over the past century have incrementally implemented public welfare policy in accordance with changing fashions and interests. Emergencies sometimes led to a "ratcheting up" of certain welfare provisions—changes that are difficult to recede.[62] For instance, grand plans such as the New Deal and Great Society attempted to unleash and control new floods of social spending all at once. Later, after the excitement over the new programs faded, few policymakers looked to evaluate program effectiveness until the late 1960s.[63] Still fewer cared to investigate the interdependent effects and final outcomes of the ever-burgeoning system as a whole. In fact, many social policy researchers argue that it is a misnomer to conceptualize welfare policy as a coherent "system" or "regime."[64] Rather, they evaluate individual program effectiveness in relation

62. Studies suggest that Americans support welfare spending more during times of economic emergency. See Cindy D. Kam and Yunju Nam, "Reaching Out or Pulling Back: Macroeconomic Conditions and Public Support for Social Welfare Spending," *Political Behavior* 30, no. 2 (2008): 223–58. Robert Higgs notes that emergency programs are rarely temporary and often become the new normal. See Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).
63. Charles F. Manski and Irwin Garfinkel, eds., *Evaluating Welfare and Training Programs* (Cambridge, MA: Harvard University Press, 1992).
64. Gregory J. Kasza, "The Illusion of Welfare 'Regimes,'" *Journal of Social Policy* 31, no. 2 (2002): 271–87.

“Many social policy researchers argue that it is a misnomer to conceptualize welfare policy as a coherent ‘system’ or ‘regime.’ Rather, they evaluate individual program effectiveness in relation to the larger, and often contradicting, set of government welfare policies.”

to the larger, and often contradicting, set of government welfare policies.

That unclear terrain of welfare programs presents yet another hurdle for the impoverished to clear. Poverty researchers have long despaired that welfare enrollment remains stubbornly beneath the total of eligible would-be beneficiaries.[65] What’s more, many low-income Americans may enroll in only one or two of the many programs for which they qualify.[66] Part of that partial financial coverage stems from program complexity and high transaction costs of enrolling in welfare. At any given time, programs available to needy families may have varying eligibility requirements and application procedures, depending on their jurisdictions and structures.[67] That jumble is a necessary function of the pseudo-federalized, hierarchical welfare system: many program administrators for separate initiatives set their own requirements without coordinating within the broader system. In addition to job hunting, the recently impoverished must quickly learn to navigate confusing mazes of applications, bureaus, and caseworkers just to stay afloat on public assistance. Some psychologists suggest that willpower and other faculties that promote positive decision-making are depletable resources that decline in tandem with the number of stressors exerted on

65. Shelley Waters-Boots, “Improving Access to Public Benefits: Helping Eligible Individuals and Families Get the Income Supports They Need” (research report, Ford Foundation, Open Society Institute and Annie E. Casey Foundation, 2010).

66. Recent research suggests there is a tipping point of low income at which families decide to branch out from basic food and health support and enroll in more welfare programs. An analysis of beneficiaries of multiple programs finds that “families receiving between one and three benefits generally access food assistance and public health insurance, with limited use of other public benefits. Only when families receive four or more benefits do they branch out to other benefits in significant numbers.” Sara Edelstein, Michael Pergamit, and Caroline Ratcliffe, “Characteristics of Families Receiving Multiple Public Benefits” (research report, Urban Institute, Washington, DC, 2014), 6.

67. Government Accountability Office, “Means-Tested Programs: Determining Financial Eligibility Is Cumbersome and Can Be Simplified” (Report 02-58, Government Accountability Office, Washington, DC, November 2001).

the decision maker.[68] Researchers behind one recent study suggest that poverty perpetuates itself by impeding cognitive function and prompting more bad decisions,[69] although other researchers have been unable to reproduce those results and suggest that the sources of poverty are more complicated.[70] Regardless of the precise cognitive transmission, confusing application processes and unclear bureaucratic accountability clearly present yet another daily problem for the poor and undermine program effectiveness. The poorest of the poor are often hurt the most.[71] Recently, the high-profile rollout of the so-called Obamacare health reform necessitated hiring an army of program "navigators" to aid beneficiaries through the opaque enrollment processes.[72] Despite the navigators, enrollment among critical demographics stubbornly remains beneath administration targets.[73] The new healthcare system is merely one of several complex programs that the poor must navigate largely on their own.

The direct costs of administrative complexity on the welfare of the poor are difficult to measure. Some studies attempt to gauge the extent of the problem by comparing welfare eligibility rates with enrollment rates. One group of researchers who examined the impact of the TANF reforms puzzles that the "government offers a stronger safety net than is delivered."[74] The researchers suggest that cultural attitudes against public assistance and welfare complexity could explain the persistent underenrollment of eligible individuals and families.[75] One telephone survey of 484 eligible but nonenrolled potential food stamp recipients conducted in 1999 sheds some light on this question: most respondents listed program complexity and psychological stigma as very important or as the most important factors preventing them from enrolling in the program.[76] Even eligible participants who do enroll face frustrations

68. See, for example, Emre Ozdenoren, Stephen Salant, and Dan Silverman, "Willpower and the Optimal Control of Visceral Urges" (NBER Working Paper 12278, National Bureau of Economic Research, Cambridge, MA, June 2006).
69. Anandi Mani et al., "Poverty Impedes Cognitive Function," *Science* 341, no. 6149 (2013): 976–80.
70. Jelte M. Wicherts and Annemarie Zand Scholten, "Comment on 'Poverty Impedes Cognitive Function,'" *Science* 342, no. 6163 (2013): 1169.
71. Andrew J. Cherlin et al., "Operating within the Rules: Welfare Recipients' Experiences with Sanctions and Case Closings," *Social Service Review* 76, no. 3 (2002): 387–405.
72. Jason Millman, "HHS Reveals Obamacare 'Navigators,'" *Politico*, August 15, 2013.
73. Jason Millman, "Obamacare Enrollment Drops Off in February," *Washington Post Wonkblog*, March 11, 2014.
74. Sheila R. Zedlweski et al., "Extreme Poverty Rising, Existing Government Programs Could Do More" (New Federalism: National Survey of America's Families, report B-45, Urban Institute, Washington, DC, April, 2002), 1.
75. Ibid.
76. Sheena McConnell, Michael Ponza, and Rhoda R. Cohen, *Report on the Pretest of the Reaching the Working Poor and Poor Elderly Survey*, vol. 1 (Washington, DC: Mathematica Policy Research, 1999).

with complexity. One analysis of data from Chicago's Public Benefits Hotline, a nonprofit organization that helps Cook County residents navigate the welfare system, notes that confusion over rules, eligibility, and document verification among both beneficiaries and administrators diminished the effectiveness of TANF, food stamps, and Medicaid.[77] Although the participants had the unusual benefit of a nonprofit organization to assist them, systemic complexity still prevented programs from delivering assistance to intended groups.

Welfare complexity creates a fundamental catch-22 for the current US welfare system. A top-down, centrally funded but noncoordinated system of public assistance necessitates the enforcement of chaotic standards that ultimately flummox outcomes for recipients. Welfare policy designers and advocates assume that the poor need federally funded programs, but they do not appreciate the implications of the system they design for the people they are trying to help. Many welfare researchers identify the problems that confusing eligibility requirements and administrative opacity present for the poor, but they do not recognize that those stringent bureaucratic standards are an unavoidable symptom of a system that is federally funded but administered in ever-changing ways and that is less often holistically scrutinized.

On that note, it is worth pointing to a potentially promising change. In March 2014, under the leadership of its chairman, Paul Ryan, the House Budget Committee put out a fairly comprehensive report that looked at the effectiveness of 92 programs at fighting poverty in the United States in the past 50 years.[78] Regarding the results of the report, Chairman Ryan stated during a hearing called "A Progress Report on the War on Poverty,"

> Over the past 50 years, [the government] has built up a hodgepodge of programs in a furious attempt to replace these missing links. But because these programs are so disorganized and dysfunctional, they pull families closer to government and away from society.
>
> Because the federal government created different programs to solve different problems—at different times—there's little to no coordination among them. And because of the way these programs are structured, families become ineligible for

77. Evelyn Z. Brodkin, Carolyn Fuqua, and Elaine Waxman, *Accessing the Safety Net: Administrative Barriers to Public Benefits in Metropolitan Chicago* (Chicago: Sargent Shriver National Center on Poverty and Law, May 2005).
78. House Budget Committee Majority Staff, *The War on Poverty: 50 Years Later* (Washington, DC: House Budget Committee, March 3, 2014).

them as they make more money—so poor families effectively face very high marginal tax rates, in some cases over 80 percent. Government actually discourages them from making more money.[79]

Misaligned Bureaucratic Incentives

Many in the United States view the question of welfare policy primarily in terms of need and funding. Individuals often simply take for granted that increasing the amount of government-provided assistance to targeted groups will accomplish the intended ends. However, the continued lethargy of the welfare system in the United States suggests that this framework is too simplistic: it is not enough to direct money at a problem if the channels through which that money is distributed are themselves inefficient or even counterproductive. Any discussion of welfare policy is incomplete without considering the effects of self-interest and incentives that influence program administrators.

Although now almost synonymous with "inefficiency," the emerging hierarchical administration was viewed by early scholars of bureaucracy as a necessary and rationalizing force in an increasingly complex society. German sociologist Max Weber believed, on the one hand, that in delineating a hierarchy and system of rules to guide organization, public and private bureaucracy could impose an otherwise elusive order on complexity. On the other hand, Weber suggested that the accompanying factors of increased depersonalization and diminished flexibility could hinder bureaucratic effectiveness.[80]

Woodrow Wilson, too, studied public administration years before his ascent to the presidency.[81] Wilson saw rule by administrators as a necessary engine to secure enlightened progress for the "unphilosophical bulk of mankind" that was under their control.[82] Noting the path dependency of institutions and anticipating the widespread dominance of a bureaucratic class, Wilson sought to remove administration from politics and coarse public opinion by centralizing knowledge and power.

A former industrial engineer and early intellectual leader of the efficiency movement, Frederick Winslow Taylor, concurrently developed the field

79. Paul Ryan, "Opening Statement: A Progress Report on the War on Poverty" (speech, US House of Representatives, Washington, DC, January 28, 2014).
80. Max Weber, *Economy and Society*, vol. 2, ed. Guenther Roth and Claus Wittich (Berkeley and Los Angeles, California: University of California Press, 1978), chap 11.
81. Woodrow Wilson, "The Study of Administration," *Political Science Quarterly* 2, no. 2 (1887): 187–222.
82. Ibid., 209.

of scientific management to guide the burgeoning bureaucratic apparatus.[83] The inevitability or desirability of bureaucratic management was taken as a given; the question was how best to apply this powerful tool to extract the most social good through technocratic efficiency. That optimistic vision of enlightened bureaucracy and expert-driven design dominated government policy for much of the 20th century. History shows that this heady administrative groundswell was more scientistic than scientific.[84]

After half a century of progressive bureaucratic experimentation, embedded administrators started noticing cracks in the façade. Ludwig von Mises, a long-serving public advisor and famous economist, published an early treatise that challenged much of his contemporaries' conventional wisdom on bureaucracy.[85] Arguing that the negative effects of bureaucracy are not unfortunate accidents but rather integrally bound in the assumptions that undergird bureaucratic planning, Mises contrasted the poor incentives and outcomes of administrative planning with those of the superior market enterprise.

Years later, public choice economist Gordon Tullock independently contributed to the nascent literature on bureaucratic realism. After many eventful years working for the US Foreign Service, Tullock discovered economics as a powerful tool to reconcile the Weber-Wilson-Taylor myopic view of bureaucracy with his own lived experience.[86] Analyzing the relationships and incentives between bureaucratic superiors and subordinates, Tullock's work emphasized that self-interest motivates actors in a bureaucracy just as much as it does in the private market.[87]

That is the central insight of the "public choice" school of economics that Tullock helped to build. Instead of trading money for goods or services as in a private market, bureaucrats trade allocated resources for desired resources such as prestige and career advancement. Bureaucrats, he argued, may often be motivated by greed, sycophancy, and self-promotion rather than by the public good. That observation explains why bureaucratic welfare efforts often primarily serve the interests of program administrators while the needs of program beneficiaries are an afterthought.

83. Frederick Winslow Taylor, *The Principles of Scientific Management* (New York: Harper & Brothers, 1911).
84. F. A. Hayek, "Scientism and the Study of Society," *Economica* 9, no. 35 (1942): 267–91.
85. Ludwig von Mises, *Bureaucracy* (New Haven, CT: Yale University Press, 1944).
86. William A. Niskanen, "Gordon Tullock's Contribution to Bureaucracy," *Public Choice* 152 (2012): 97–101.
87. Gordon Tullock, *The Politics of Bureaucracy* (Washington, DC: Public Affairs Press, 1965).

Economist William Niskanen, too, drew inspiration for his seminal analysis of bureaucratic behavior from his stints in public administration and analysis. Niskanen formalized many of Tullock's intuitive observations on the nature of bureaucracy by developing explanatory models of bureaucratic behavior.[88] By applying the universal principles of economics to the behavior of political actors, Niskanen and his public choice colleagues showed that bureaucrats maximize not public welfare or efficiency but their own budgets and authority.

The insights of public choice do not suggest that all bureaucrats are greedy and uninterested in true public service. Undoubtedly many bureaucrats and social workers tirelessly work within the frustrating and broken system to do the best that they can for the citizens whom they serve. That they serve the public with such honesty amid considerable temptation and corruption is therefore especially commendable. However, public choice *does* tell us that the talents and passion of those public-minded civil servants are being squandered in a system with incentives that lead so many of their colleagues, intentionally or as a necessary condition of getting by, to prioritize self-interest over the public interest. No matter how noble the intentions of the designers, administrators, and supporters of the current bureaucratic system of public assistance, welfare outcomes will continue to be hindered as described by the sober lessons of public choice.

The problems of internal incentives create other poor incentives between government aid providers and government aid recipients. Bureaucratic barriers to aid can at once maintain program integrity at the expense of the deserving poor while increasing prestige and authority for agencies. For instance, bureaucrats may succumb to incentives to "make work" (and increase budget resources) for themselves by increasing application requirements or caseworker visits. Taxpayer calls for welfare reform apply more pressure to those incentives. The PRWORA reforms, for example, legislated the growing concern over rising illegitimacy rates into welfare policy through publicly funded marriage promotion and TANF marriage premiums.[89] Welfare programs are in this way subject to both democratic whims and bureaucratic constraints.

The paternalistic power dynamic of current welfare provision is one of the most popular critiques of the system from the Left, just after the contention that

88. Niskanen, *Bureaucracy and Representative Government*.
89. Robert I. Lerman, "Marriage and the Economic Well-Being of Families with Children: A Review of the Literature" (report prepared for the Department of Health and Human Services, July 2002).

the welfare system is not funded well enough. The latent paternalist assumptions that girded the rise of the administrative interventionist state have been more explicitly articulated and embraced in recent decades, most famously by Lawrence M. Mead's *New Paternalism*.[90] New paternalist welfare reformers believe that poverty is best reduced by government-imposed "directive and supervisory means" that require the poor to meet state-set behavioral requirements enforced through close supervision.[91] Underlying that position is the assumption that the poor are uniquely unable to make the right decisions for themselves. The state, new paternalists conclude, has the knowledge, duty, and ability to coerce those in poverty to do what is *actually* best for themselves, as determined by administrative bureaucrats.

However, poverty researchers of other schools of thought were criticizing "new paternalist"-style thinking even before its recent prominence. Their view was perhaps most famously communicated by sociologists Frances Fox Piven and Richard Cloward in the landmark study *Regulating the Poor*.[92] Piven and Cloward apply a Marxist dialectic that sees public welfare as a means of controlling the working and lower classes. Welfare, according to the "social control" perspective, serves the dual functions of staving off political unrest during dark periods and conditioning the working class to accept "workfare" during good times. The needs of the elites, rather than the poor, are always paramount in this view of welfare. Although contemporary scholars from the Right and the Left took issue with some of Piven and Cloward's historical accounts and lack of empirical support,[93] the work was widely influential and provided an alternative, Marxist conception of public choice thought. Additionally, their keen observation of the inherent power inequities imbued in state welfare provision was a novel and useful insight within intellectual circles on the Left. What good is the tarnished veneer of aid to the poor through state welfare provision, argued Piven and Cloward, if it is merely a Trojan horse for the interest of the capitalist classes? Piven and Cloward provide an important recognition of the poor incentive and power dynamics of state-provided welfare assistance from a very different intellectual perspective.

90. Lawrence M. Mead, *The New Paternalism: Supervisory Approaches to Poverty* (Washington, DC: Brookings Institution Press, 1997).
91. Ibid, 2.
92. Frances Fox Piven and Richard Cloward, *Regulating the Poor: The Functions of Public Welfare* (New York: Pantheon Books, 1971).
93. William A. Muraskin, "*Regulating the Poor* by Frances Fox Piven, Richard A. Cloward," *Contemporary Sociology* 4 (1975): 607–13.

The "capitalist class," of course, is only one of the special interests that have a seat on the board of directors for "Welfare Inc." Other powerful parties include politicians, who earn their profits through votes and photo opportunities; bureaucrats, who earn their profits through agency funding, prestige, and authority; activists, who earn their profits through grants and employment opportunities; religious groups, who stand to lose converts to secular welfare provision; and researchers, who earn publications and grants to study proliferating programs (resulting in papers like this one). Sadly, taxpayers, who stand to lose public funding for their personal priorities (not to mention their incomes) to pay for new programs, rarely have a voice or even a seat at the table. Poorly organized, poorly funded, and poorly endowed welfare recipients rarely have a proportional voice in the conversations and are often an afterthought. Potential positive benefits wrought by peripheral reforms tweaking minor facets of welfare provision are diminished by the destructive incentives riddling the system as a whole. As long as the US welfare system creates counterproductive administrative incentives, perverse power dynamics, and opportunities for special interest manipulation, it will continue to produce weak outcomes.

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Disincentives to Work

The supporters and architects of the current welfare system undoubtedly believed they were helping the poor. Their proposals were products of the cultural context of their time. The welfare programs enacted through the New Deal were designed to assist individuals whom society did not expect to work, such as widows, abandoned mothers, people with disabilities, and the elderly. Planners focused their attentions on providing a generous public "safety net" to capture and support the downtrodden, who could not care for themselves. The gradual increase in rates of divorce and out-of-wedlock births later strained a system that was designed to support merely those who could not support themselves. Those new social realities prompted planners and critics alike to scrutinize the tendency of antipoverty programs to disincentivize employment among employable populations. In their zeal to improve what was seen, those welfare designers lost sight of what was unseen. Namely, welfare architects widely underrated the disincentives to work that their system unintentionally generated for the unanticipated beneficiaries of the future.

Economists have long been acutely aware of the disincentives to work nestled within the historical[94] and existing welfare systems.[95] Means-tested welfare programs are structured so that beneficiaries can lose more benefits than they earn in extra income if they reach a certain threshold. The percentage of an additional dollar in income that is unavailable to an individual because it is taxed by the government or offset by reductions in government benefits is called the *effective* or *implicit marginal tax rate*.[96] Because welfare benefits are untaxed but earned wages are taxed, welfare beneficiaries find themselves facing high implicit marginal tax rates as they earn more taxable income. High implicit marginal tax rates mean that welfare beneficiaries receive lower benefits as they earn more income. Thus, welfare beneficiaries who sincerely wish to achieve self-sufficiency will be *punished* as they make more money. Gary Alexander, a former secretary of public welfare for the Commonwealth of Pennsylvania, points out that the system is structured so that a single mother may benefit financially by sticking with a low-paying job with a $29,000 annual wage and government-provided benefits, for a total of $57,327 in income and benefits, than by taking a higher-paying job at $69,000, because her benefits would disappear and her new income would be taxed, leaving her with a lower net income of $57,045.[97] The welfare system counterproductively provides incentives for recipients to work less, therefore lengthening their experience of poverty. Depending on the programs in which they participate, low- and middle-income Americans can face implicit marginal tax rates that are as high as 50 to 80 percent.[98] Such high implicit marginal

94. Robert *Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," Journal of Economic Literature* 30, no. 1 (1992): 1–61.
95. Robert Moffitt, "Welfare Programs and Labor Supply," in *Handbook of Public Economics*, vol. 4, ed. Alan J. Auerbach and Martin Feldstein (New York: North-Holland, 2002), 2393–430.
96. Congressional Budget Office, "Effective Marginal Tax Rates for Low- and Moderate-Income Workers" (CBO Report 4149, Congressional Budget Office, Washington, DC, November 2012).
97. Cited by James Pethokoukis, "Julia's Mother: Why a Single Mom Is Better Off with a $29,000 Job and Welfare Than Taking a $69,000 Job," *AEIdeas*, July 12, 2012.
98. Ibid. But also see the very important work of Casey B. Mulligan, "Average Marginal Labor Income Tax Rates under the Affordable Care Act" (NBER Working Paper 19365, National Bureau of Economic Research, August 2013).

tax rates, in turn, dampen the incentives of recipients to return to the labor force, even if they are able.[99]

One ambitious study from the Cato Institute estimates the value of a full package of welfare benefits available to a representative recipient in all 50 states and the District of Columbia.[100] The first version of this study,[101] completed in 1995, finds that “not only did the value of such benefits greatly exceed the poverty level but, because welfare benefits are tax-free, their dollar value was greater than the amount of take-home income a worker would receive from an entry-level job.”[102] For instance, in 1995, the welfare packages of 40 states were more generous than an income of $8 an hour.[103] The figures in the 2013 update do not suggest significant improvements in this trend in many states despite the considerable PRWORA reforms undertaken in the meantime.[104] The authors of the 2013 study find that “welfare currently pays more than a minimum wage job in 35 states,” even when accounting for EITC benefits.[105] In fact, the welfare packages of 13 US states are more generous than jobs that pay $15 per hour. Moreover, for frame of reference, note that welfare packages pay more than the average wages of a first-year teacher in 11 states and exceed the starting wage for a secretary in 39 states.[106] Welfare beneficiaries can even earn more money than entry-level computer programmers in Hawaii, Vermont, and Massachusetts—which pay welfare benefits equivalent to more than two times the federal poverty level.[107] The key policy lesson here would be to make sure that government support does not exceed the market value of the individual’s work.

However, as mentioned earlier, many people do not enroll in all the antipoverty programs for which they qualify because of the overlapping and complex

99. Lowell Gallaway, Richard Vedder, and Robert Lawson, “Why People Work: An Examination of Interstate Variations in Labor Force Participation,” *Journal of Labor Research* 12, no. 1 (1991): 47–59.
100. Michael Tanner and Charles Hughes, “The Work versus Welfare Trade-Off 2013: An Analysis of the Total Level of Welfare Benefits by State” (white paper, Cato Institute, Washington, DC, 2013).
101. Michael Tanner, Stephen Moore, and David Hartman, “The Work versus Welfare Trade-Off: An Analysis of the Total Level of Welfare Benefits by State” (Policy Analysis 240, Cato Institute, Washington, DC, 1995).
102. Tanner and Hughes, “Work versus Welfare Trade-Off 2013,” 1.
103. Tanner, Moore, and Hartman, “Work versus Welfare Trade-Off.”
104. Note that the 2013 study did not analyze just TANF payments, but also SNAP; Medicaid; Women, Infants, and Children (WIC) assistance; housing assistance; utilities assistance; and The Emergency Food Assistance Program (TEFAP). Those programs were not subject to the successful 1996 PRWORA reforms to the same extent as TANF, if at all.
105. Tanner and Hughes, “Work versus Welfare Trade-Off 2013,” 1.
106. Ibid, 4.
107. Ibid.

nature of the US welfare system.[108] The authors of the 2013 study note that "not every welfare recipient fits the profile used in this study, and many who do fit it do not receive every benefit listed."[109] Additionally, some welfare beneficiaries continue to draw benefits even after finding employment. Still, it is common for welfare beneficiaries to draw from more than one antipoverty program at once, even if they do not receive the full scale of benefits for which they are legally eligible. Likely the generosity of those overlapping benefits marginally influences the trade-off between work and remaining on welfare for a large number of beneficiaries. It should be no surprise that more people do not leave the welfare rolls when many states appear so intent on generously subsidizing unemployment and punishing self-sufficiency with such high implicit marginal tax rates.

A review of the disincentives to work hidden in the massive US welfare system suggests that the poor are not simply lazy, as some conservative caricatures might suggest, but rather are rational economic actors who are responding predictably to the incentives that face them. Progressive welfare schemes that increase disincentives to work or raise implicit marginal tax rates will not solve those problems but will make them worse. In theory, a truly compassionate welfare policy will set aside emotional reactions in favor of empirically tested solutions that provide assistance to the poor without continuing the cycle of welfare dependency through disincentivizing work and penalizing self-sufficiency.

Thankfully, the Clinton administration emphasized that approach in the welfare reform of the 1990s. However, in the past few years, a noticeable shift has occurred. During the debate over the adoption and then implementation of the healthcare law known as the Affordable Care Act, economists such as Jason Furman, the head of the Council of Economic Advisers, argued that the disincentive to work built into the government program should be welcomed and was indeed a goal in and of itself.[110] Such thinking represents a complete and sad reversal of the Clinton years.

The Knowledge Problem

The fundamental problem that undermines welfare effectiveness is the same that undercuts all government planning: the simple knowledge problem. Popularized by Nobel laureate economist F. A. Hayek, the knowledge problem is a

108. Michael D. Tanner, "The Work vs. Welfare Trade-Off: A Response to Critics," *Cato at Liberty*, August 27, 2013.
109. Tanner and Hughes, "Work versus Welfare Trade-Off 2013," 42.
110. See, for instance, Susan Jones, "CBO: Obamacare Will 'Reduce Incentives to Work'; WH Spins It as 'Choice,'" *CNSNews*, February 5, 2014.

“problem of the utilization of knowledge which is not given to anyone in its totality.”[111] Economists and political scientists often publish models that show planners can improve outcomes in society, assuming that planners possess perfect knowledge of preferences and relevant information and perfect ability to act on that knowledge. Hayek reminds us that those assumptions are unattainable in the real world: much of the relevant knowledge needed for optimal social planning is made known only through dynamic processes. That tacit information, what Hayek calls the “knowledge of the particular circumstances of time and place,” informs and affects the residual information that outside observers can measure.[112]

The problem of planning is how best to distribute limited resources among people with infinite wants. Raw materials can be combined and distributed in trillions of ways to satisfy some of the infinite desires people have for those resources. In a vacuum, simple economic decisions face a frightening number of contingencies and dependencies. Should the milk the farmer produced be sold as is? Or should it be turned into ice cream? What if too many other farmers sell their milk on the market? What if a new antimilk diet fad sweeps the nation? Alternatively, what if the sugar crop is hit by pestilence this year, and ice cream becomes less profitable? Should the farmer just slaughter the cows for beef? What should he do with the meat? It is hard to tell without prices. Individually tracking down all the tacit information affecting relevant markets and consumer preferences would be impossible. Fortunately, we live in a world of decentralized planning that is guided by the price system. Individuals or voluntary associations of individuals plan for themselves as guided by the price system. The farmer does not need to hunt down tacit information about sugar crops and diet fads and culinary trends to operate his dairy business, it is already summarized for him in the price mechanism.

Government planning has no such mechanism and must rely on markets. Without omniscience and infallibility, government planning is impossible.[113]

111. F. A. Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35, no. 4 (1945): 519–30, 520.
112. Ibid., 521.
113. For an in-depth exposition of the paradox of central planning, see Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War* (New Haven, CT: Yale University Press, 1944). Socialist economists who took part in this “economic calculation debate” proposed alternative models, notably the Lange-Lerner theorem. Oskar Lange and Abba Lerner proposed that the economy could be structured in three tiers that could use trial-and-error pricing to identify “optimal” prices equal to the marginal cost of production. In addition to noting the high deadweight loss of this approach, critics of the Lange-Lerner solution fault it for not responding to Mises’s argument that state planners could not run financial markets. See Oskar Lange, “On the Economic Theory of Socialism,” *Review of Economic Studies* 4, no. 1 (1936): 53–71.

Much of the "planning" in the ostensibly "communist" Soviet Union was based on price comparisons with Western markets and black markets.[114] So much latent, scattered, and changing information is needed to rationally plan desired outcomes that even the smartest humans cannot adequately collect, analyze, and use their synthetic emulations in a timely manner. Moreover, planners simply cannot synthetically emulate the entrepreneurial and price discovery functions of the competitive price system.[115] Without decentralized planning guided by prices, individuals do not have the opportunity to signal preferences to sellers and serve value to buyers. Instead, planners force their own ideas of what people's preferences and capabilities are (or should be)—assuming that they are not just concealing their own self-interest in the language of the public good.

Thus, for decades welfare administrators have collected and analyzed data on the conditions and outcomes of the poor but have failed to significantly and sustainably improve the overall quality of life for poor individuals. Planners in Washington can derive only so much information from their spreadsheets. Individuals' varied needs and means and personalities and backgrounds and environments cannot be beneficially distilled into the format that central planning requires.[116] The dynamism of life is simply too complex to be reduced and controlled by social engineers from above.

Social projects not designed to heed the knowledge problem are doomed to failure. Intended social change cannot be engineered by high-level designers who lack critical information. The true goal of social reformers should be to "cultivate" a system that best "designs" itself by allowing individuals to make best use of their own tacit knowledge. The reformers should think of themselves as gardeners, not mechanics. In other words, social reformers should not

114. P. J. D. Wiles, "Changing Economic Thought in Poland," *Oxford Economic Papers* 9, no. 2 (1957): 190–208.

115. Israel M. Kirzner, "Economic Planning and the Knowledge Problem," *Cato Journal* 4, no. 2 (1984): 407–25. Kirzner describes the entrepreneurial and price discovery functions of decentralized market exchange in detail: "The key point with respect to the market process is that the misallocation of a unit of resource (together with the antecedent imperfection of knowledge) implies the *existence of an unexploited opportunity for profit*. Price discrepancies expose misallocation in the form of profit opportunities. Further prices *promote* corrective activity by attracting entrepreneurs to seize these opportunities. The entrepreneurial search for profit implies a *search* for the consequences of previously imperfect knowledge and an attempt to correct them." Israel M. Kirzner, *Market Theory and the Price System* (Princeton, NJ: D. Van Nostrand Company Inc., 1963), 309.

116. Anthropologist James C. Scott suggests that state attempts to categorize and measure subjects' metrics and outcomes serve the state more than the subjects. By increasing the "legibility" of the populace to state planners, Scott suggests, states can more easily extract resources and loyalty from the governed. Often, humanitarian or public-minded justifications for these measurements are a veil for state interest and plunder. See James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed* (New Haven, CT: Yale University Press, 1998).

attempt to act *on* individuals but should instead consider and promote rules and systems that will best allow individuals to act *for* themselves.

PROPOSED REFORMS

A small but growing number of reformers have come to recognize the counterproductive results wrought by the welfare system's complexity, misaligned incentives, and knowledge problem. For decades, they have proposed policy changes to disentangle and tame those shortcomings. Such reforms boast varying levels of support and challenge from both the Right and the Left. We will now consider proposals to replace welfare with some combination of guaranteed income levels, tax incentives, work requirements, and block grants to the states. We will then identify the possible benefits, shortcomings, and political challenges facing each proposal.

Cash Transfers: Guaranteed Minimum Incomes and Universal Basic Incomes

One prominent strain of welfare reform aims to replace the byzantine maze of overlapping agencies and programs with a single cash transfer to qualifying groups. Direct cash transfers to the poor are presented as either a "guaranteed minimum income" or a "universal basic income." A guaranteed minimum income provides some minimum amount of a direct cash transfer to individuals or families that meet certain criteria. Some conceptualize guaranteed minimum incomes as a state-provided income floor for all people who fall beneath a certain income threshold; others include conditions such as work requirements or job training. A universal basic income, by contrast, is not means tested but is available on a regular basis at the same level to each citizen regardless of income or work status.[117] Universal and guaranteed income proposals vary in form and priority.

At first glance, basic income proposals strike many as bizarre. The idea of simply handing out government checks to poor individuals or to all citizens with no strings attached seems too outlandish for serious consideration. Basic income proposals have enjoyed longstanding support from advocates of diverse

117. Philippe Van Parijs, "Basic Income: A Simple and Powerful Idea for the 21st Century" (background paper, presented to the Basic Income European Network 8th International Congress, Berlin, October 6–7, 2000).

"Many scholars who are sympathetic to the practical and economic justifications for a basic income nevertheless argue that the politics of welfare reform preclude a reasonable possibility of proper reform."

ideological backgrounds, however, and have garnered renewed interest following news of a recent Swiss referendum to enact a universal basic income.[118] Supporters argue that basic income proposals are potentially more affordable because they cut administrative costs, offer more dignity to recipients, and are more effective at handling poverty than existing remedies because they allow individuals more freedom to budget and prioritize.[119] Opponents often scrutinize claims of affordability and warn of the potential disincentives to work that basic income proposals could bring. More fundamentally, many scholars who are sympathetic to the practical and economic justifications for a basic income nevertheless argue that the politics of welfare reform preclude a reasonable possibility of proper reform.[120] That is, they argue that supporters underrate the potential for the nature of politics itself to compromise even the best-designed antipoverty schemes into something that their original designers would not have supported.[121]

Would a universal income scheme cost less than the current welfare system? Some critics point to the high administrative costs of welfare as a source of substantial cost savings. Former Rep. Michelle Bachmann (R-MN), for example, drew attention to the issue when she cited a 1986 government report stating that 70 percent of all welfare spending goes to administrative costs.[122] More recent

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118. Annie Lowrey, "Switzerland's Proposal to Pay People for Being Alive," *New York Times*, November 12, 2013.
119. Matthew Feeney, "Scrap the Welfare State and Give People Free Money," *Reason*, November 26, 2013.
120. Peter J. Boettke and Adam G. Martin, "Taking the 'G' out of BIG: A Comparative Political Economy Perspective on Basic Income," *Basic Income Studies* 6, no. 2 (2012): 1–18.
121. This was the case with the negative income tax–inspired EITC. The sound economic analyses for negative income tax proposals garnered support for the largely politically driven EITC. See Dennis J. Ventry Jr., "The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969–99," *National Tax Journal* 53, no. 4 (2000): 983–1026.
122. Glenn Kessler, "Bachmann's Claim That 70 Percent of Food Stamps Go to 'Bureaucrats,'" *Washington Post*, March 18, 2013.

estimates report that administrative costs for most welfare programs range from only 10 percent to 15 percent of total program spending.[123] That more sober estimate of administrative spending decreases the range of potential savings that basic income proposals could yield. Cost estimates obviously depend on the terms of the basic income proposal considered. Several estimates suggest that basic income proposals would not yield cost savings for several years, if at all. Charles Murray, for instance, calculated in 2008 that a guaranteed income of $10,000 a year for all adults ages 21 years or older would not cost any more than projected welfare spending in the United States for fiscal year 2011.[124] Murray projects that by 2028 his guaranteed income proposal would cost more than $1 trillion less than the current system. Another analysis of Philippe Van Parijs's popular guaranteed income proposal finds that after taking reduced transfers into account, a basic income plan still would have cost $1.69 trillion in 2002,[125] an amount considerably higher than the $522 billion in reported means-tested state and federal welfare spending for fiscal year 2002.[126] Another study estimates that a $4,000 a year basic income for each citizen of any age in the United States would cost $1.1 trillion in annual tax revenue to finance for a population of 280 million, or 50 percent of the federal budget at the time of analysis.[127] However, it is conceivable that a basic income program could save taxpayers

123. 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" (Special Report SR-67, Heritage Foundation, Washington, DC, 2009).
124. Charles Murray, "Guaranteed Income as a Replacement for the Welfare State" (research paper, Foundation for Law, Justice and Society, Wolfson College, Oxford, UK, 2008). In 2012, the federal government spent $799 billion on 92 programs, according to the Ryan report. House Budget Committee Staff, *War on Poverty*. The US Census Bureau reports that 109,631,000 people were living in households taking federal welfare benefits in 2012. Roughly 170 million adults over the age of 21 were living in the United States that year. US Census Bureau, *Economic Characteristics of Households in the United States*, Table 1: Households and Median Monthly Household Cash Income by Selected Characteristics of the Householder: Monthly Averages, accessed July 20, 2016, http://www.census.gov/sipp/tables/quarterly-est/household-char/2012/4-qtr/Table1.xlsx.
125. Philip L. Harvey, "The Relative Cost of a Universal Basic Income and a Negative Income Tax," *Basic Income Studies* 1, no. 2 (2006): 1–24.
126. Vee Burke, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2000–FY2002" (CRS Report RL32233, Congressional Research Service, November 25, 2003).
127. The author of the study, James Bryan, points out that basic income guarantees can be measured along different dimensions of equity or efficiency. Bryan models a basic income proposal against an income-targeted redistribution scheme (similar to the current welfare system) and finds that the basic income proposal has a higher gross efficiency per dollar of positive transfer. However, those results depend on assumptions about wage elasticities and marginal tax rates that Bryan admits would affect outcomes in the real world. See James B. Bryan, "Targeted Programs vs. the Basic Income Guarantee: An Examination of the Efficiency Costs of Different Forms of Redistribution," *Journal of Socio-Economics* 34, no. 1 (2005): 39–47.

money if structured properly. For instance, if the federal government allocated $12,000 to all adults living at or below the federal poverty level of $11,720 in income each year, a basic income plan would cost $600 billion a year, which is less than the current welfare system.[128] Still, if one considers the whole body of evidence, one might find that a universal income proposal would provide scant savings or even cost more than the existing system. Basic income proposals that are narrowly targeted to people beneath a certain poverty threshold may be less expensive than the current system, but those programs would still require administrative management and monitoring and would have a greater potential for rent-seeking and bureaucratic inertia. Consider that once everyone gets the same amount of money, before long interest groups would argue, for example, that rents are higher in California than in Alabama, so welfare recipients living in California should get more benefits.

The case for a basic income is easier to make on humanitarian and epistemological grounds, but complications still lie in the details. Replacing the complex and time-consuming welfare system with a simple cash transfer to impoverished Americans would inarguably reaffirm their autonomy, reduce bureaucratic stress, and expand their options. Importantly, basic income proposals better address the knowledge problem that jeopardizes contemporary welfare outcomes. Rather than micromanaging the financial details of those in poverty, the government could simply provide the needed resources and allow individuals with the best knowledge of their own situations to decide how best to spend the funds. Indeed, several random control trial experiments of unconditional cash transfers to poor households in the developing world find that recipients enjoy positive benefits ranging from increased household wealth to improved outcomes for children to reduced incidences of early pregnancy and low birthweights compared with control group subjects who received in-kind transfers or no assistance.[129] Even if basic income proposals do not save a significant amount of money, many would prefer this alternative to the degrading paternalism of the current welfare system. As we mentioned in our introduction, the multifaceted question of poverty eludes an answer as straightforward as simply directing money to a situation. It is unsurprising

128. Veronique de Rugy, "Time for a Guaranteed Income?," *Reason*, March 2014.
129. Andres Marroquin, "Cash Transfers to Low-Income People in the US" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, forthcoming). Note that exceptions exist in the literature. For example, in-kind grants have been found to be more effective at promoting small enterprise profits than are cash grants. See, especially, Marcel Fafchamps et al., "When Is Capital Enough to Get Female Microenterprise Growing? Evidence from a Randomized Experiment in Ghana" (NBER Working Paper 17207, National Bureau for Economic Research, Cambridge, MA, 2011).

that random controlled trial beneficiaries enjoyed better short-run outcomes than did similar households that did not receive cash transfers.

It is critical to simultaneously consider how the harder-to-measure cultural and economic trends, particularly regarding employment and labor markets, could affect and could be affected by basic income policies. We will turn to some evidence on the labor market effects of income support proposals after considering tax-based income support schemes.

Tax Incentives: Negative Income Taxes and the EITC

A negative income tax is an alternative proposal to achieve a basic income through the tax code.[130] Such a tax is the opposite of a positive income tax, for which a government takes a rising percentage of increasing marginal income. With a negative income tax, people who make less income than the lowest tax bracket receive money from the government. The benefit reduction rate is such that the beneficiary of a negative income tax payment receives more money overall as the beneficiary's income increases toward the threshold level, thus potentially dampening disincentives to work. If the lowest tax bracket is $10,000 a year and a worker makes less than that amount, the government would send money back to this person, perhaps through a refundable tax credit. Let's assume that the lowest tax bracket income will serve at the minimum guarantee level. The negative income rate would be applied to the difference between the worker's earnings and the income level of the minimum income tax bracket. For example, say the negative income tax rate is set at 25 percent. A tax filer who makes only $6,000 a year would receive a $7,500 check from the Treasury that year ($10,000 − [$6,000 × 25 percent] = $7,500), for an overall income of $13,500. If that tax filer's income rose to $8,000 the next year, then the tax filer would receive a check for $8,000 ($10,000 − [$8,000 × 25 percent] = $8,000), for an overall income of $16,000. Should the tax filer become unemployed and earn no income for the year, the tax filer would simply receive a $10,000 check ($10,000 − [0 × 25 percent] = $10,000). As this illustration demonstrates, individuals receive a higher overall income the more they work. The negative income tax, which was first popularized by economist Milton Friedman in 1962, can therefore be thought of as one of many implementations of a basic income.[131]

130. Jodie T. Allen, "Negative Income Tax," *The Concise Encyclopedia of Economics*, Library of Economics and Liberty, 1993.
131. Ibid.

The earned income tax credit is a type of negative income tax for which only working individuals are eligible. Under the EITC policy, families beneath a certain adjusted gross income threshold receive refundable tax credits at diminishing rates for each dollar of earned income up to a predefined maximum. The tax credit rates, maximum eligible earnings, and maximum credit levels depend on the type of household and income earned.[132] For example, according to IRS tax rules for 2015, a single, childless tax filer who earns less than $14,820 a year is eligible for a refundable tax credit of 7.65 percent for each dollar of income earned up to a maximum credit amount of $503. A married couple with two children that earns less than $49,974 annually is eligible for a refundable tax credit of 40 percent for each dollar of income earned until wage income exceeds $23,649, at which point the tax credit rate is reduced to 21.06 percent, subject to a maximum credit amount of $5,548 in benefits. Proponents believe that the policy is superior to a broad negative income tax because it requires individuals to work to receive benefits and therefore creates less of a disincentive to work.

However, administrative practice has not precisely conformed to theory. First, in Friedman's vision, the negative income tax would replace all other forms of welfare payments. The EITC, by contrast, is in addition to other types of welfare payments. With $15.6 billion in improper payments extended in 2015, the EITC has the highest improper payment rate of all federal programs surveyed.[133] The EITC is different from a negative income tax as promoted by Friedman because it requires people to work to receive benefits, whereas Friedman's version of the tax would provide income assistance to all people who fell beneath a defined threshold regardless of whether they worked.

Because the EITC is paid in addition to benefits from other welfare programs, it is extremely costly. After expansions in 1986, 1990, 1993, and 2009, the program will provide an estimated $69 billion in benefits to 28 million recipients for a fiscal cost of $60 billion in 2015.[134] Though the EITC is being administered through the tax code, the growth in its refundable portion has made it primarily a spending program. In fact, it is the largest federal cash transfer program for low-income households.

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132. Tax Policy Center, "What Is the Earned Income Tax Credit?," *Tax Policy Center Briefing Book*.
133. Veronique de Rugy and Jason J. Fichtner, "Latest Improper Payments Figures Show a Continuing Problem," Mercatus Center at George Mason University, May 6, 2016.
134. Chris Edwards and Veronique de Rugy, "Earned Income Tax Credit: Small Benefits, Large Costs" (Tax and Budget Bulletin n. 73, Cato Institute, Washington, DC, October 2015).

The negative income tax was popularized by economists of diverse ideological perspectives, including Friedman,[135] James Tobin,[136] and Robert Lampman.[137] Like basic income boosters, supporters of a negative income tax argue that their proposal is a more affordable, more dignified, less bureaucratic, and less distorting alternative to the current welfare system.[138] Compared to the existing welfare system, supporters argue that a negative income tax system can provide a basic livable income without creating a disincentive for work. The refreshing simplicity of a negative income tax is not enough to purge the devil from the details. Negative income tax proposals also suffer from problems similar to those of basic income proposals. Specifically, the inherent tradeoffs of negative income tax may preclude the policy from accomplishing its dual goals of (a) providing a basic income without distorting markets and (b) saving taxpayer funds. As poverty economist Robert Moffitt notes,

> The problem is that if the guaranteed level of income for those who do not work at all is set relatively high to provide an adequate income to those with no other funds, and if the rate of the negative income tax at which benefits are withdrawn is relatively low in order to provide reasonable work incentives, the overall cost of the program may be unacceptably high.[139]

Like guaranteed income proposals, the details of negative income tax proposals render them less flattering on closer scrutiny.

CHALLENGES AND OPPORTUNITIES

Of course, things get messy when theoretical social reforms move from the "lab" to the real world. Researchers and social workers now have the benefit of decades of program experimentation and tweaking to inform modern reform proposals. In this section, we discuss some of the shortcomings discovered in test income support programs as well as in the reform options that have been proposed to ameliorate those issues. Of particular interest are whether income

135. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).
136. James Tobin, "On Improving the Economic Status of the Negro," *Daedalus* 94, no. 4 (1965): 878–98.
137. Robert J. Lampman, "Approaches to the Reduction of Poverty," *American Economic Review* 55 (1965): 521–29.
138. Robert Moffitt, "The Negative Income Tax and the Evolution of U.S. Welfare System" (NBER Working Paper 9751, National Bureau of Economic Research, Cambridge, MA, 2003).
139. Ibid., 8.

support programs counterproductively disincentivize work for able-bodied recipients and whether an adequate substitution of these income support programs for existing, inefficient poverty programs is politically possible. Two partial solutions—work requirements and block granting of welfare payments to the states—are explored.

Do Income Support Proposals Disincentivize Work?

Whether income support proposals are effective and what their consequences are for labor and labor markets ultimately depend on one's ideological perspective.[140] For some poverty researchers, such questions are inconsequential or even counterproductive.[141] Indeed, some progressive supporters of income support proposals go so far as to argue that a minimum income is a necessary precondition for the ideal state of real freedom.[142] In this view, the distinction between paid employment and productive but nonpaid activity is unnecessarily confining.[143] Contrary to left-leaning moral frameworks that view wage labor as a scourge to be transcended,[144] other beliefs find honest employment a necessary and valued human experience that provides purpose, promotes community, and extends time horizons.[145] Moreover, such commentators believe that the integrity of an antipoverty system is strained when able-bodied, otherwise employable beneficiaries receive public assistance that is comparable to that of individuals who are incapacitated and truly unable to support themselves through employment. Adopting that perspective, we will consider a basic

140. The dichotomy mimics Arthur Okun's famous distinction between equality and efficiency: right-leaning commentators worry that basic income schemes could undermine labor market efficiencies by creating disincentives to work, whereas left-leaning commentators hope that basic income proposals could increase equality by providing a more robust safety net to the poor. Alternatively, conservatives could just as well argue that they are concerned with legal equality and progressives could likewise argue that they are concerned with social efficiency! See Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff* (Washington, DC: Brookings Institution Press, 1975).
141. Anne L. Alstott, "Work vs. Freedom: A Liberal Challenge to Employment Subsidies," *Yale Law Journal* 108, no. 5 (1999): 967–1058.
142. The term real freedom was coined by philosopher and basic income activist Philippe Van Parijs. According to Van Parijs, to have real freedom, an individual must have traditional negative freedom and possess the resources and abilities to actually carry out his or her unique will. He illustrates this argument in Philippe Van Parijs, *Real Freedom for All: What (If Anything) Can Justify Capitalism?* (Oxford, UK: Oxford University Press, 1995).
143. Chandra Pasma, "Working through the Work Disincentive," *Basic Income Studies* 5, no. 2 (2010): 1–20.
144. Louise Haagh, "Working Life, Well-Being and Welfare Reform: Motivation and Institutions Revisited," *World Development* 39, no. 3 (2011).
145. One popular articulation of this perspective was made by Max Weber. See Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (London: Allen and Unwin, 1930).

income proposal to be effective if it provides a safety net for the poor without disincentivizing paid employment to a greater extent than it is disincentivized in an alternative system of comparison.

What impact would a basic income have on labor markets? Estimating the labor market effects of a hypothetical basic income system is a difficult task. International examples are scarce; to date, no country has entirely replaced an in-kind welfare transfer system with a basic or guaranteed income plan.[146] Studies of partial cash transfer, basic income, or negative income experiments, though necessarily limited by their narrow scopes and small scales, nevertheless shed helpful light on the likely labor market effects of such programs.[147]

In the 1960s and 1970s, poverty researchers and social scientists, in collaboration with municipal government planners, ran a series of experiments to determine the behavioral effects of income support proposals.[148] The experiments were carried out to test the behavioral consequences of popular presidential antipoverty proposals, such as President Richard Nixon's Family Assistance Plan[149] and President Jimmy Carter's Program for Better

"Contrary to left-leaning moral frameworks that view wage labor as a scourge to be transcended, other beliefs find honest employment a necessary and valued human experience that provides purpose, promotes community, and extends time horizons."

146. From 1988 to 2004, France did have a limited basic income plan called the *revenu minimum d'insertion*, or minimum guaranteed income. French citizens ages 25 years and over or parents of any age qualified for a government-funded income subsidy on the condition that they would search for work within three months of receiving their first check. The program was replaced in 2004 by the more decentralized *revenu minimum d'activité*, or minimum employment income, which emphasized getting people who had received payments for two of more years back to work. This program was then replaced by the *revenue de solidarité* active in 2009, which only applies to people without any income.
147. For an in-depth explanation of the varying methodologies, strengths, and weaknesses inherent in the experimental literature, see Gary Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence," *Federal Reserve Bank of Boston Conference Series* 30 (1986): 22–52.
148. For a broad overview of these experiments, see Alicia H. Munnell, "Lessons from the Income Maintenance Experiments: An Overview," *Federal Reserve Bank of Boston Conference Series* 30 (1986): 1–21.
149. Robert J. Lampman, "Nixon's Family Assistance Plan" (Discussion Paper 57-69, Institute for Research on Poverty, University of Wisconsin, Madison, 1969).

Jobs and Income,[150] which gained prominence during that time.[151] For the first time, pioneering social scientists randomly assigned aid recipients to various income support programs and a control group. This method of research design enabled the researchers to more accurately test a minimum income's large-scale viability.[152] The experiments attempted to observe the behavioral effects on factors such as labor supply trends, family stability, consumption, and child well-being of a basic income in the form of a negative income tax or guaranteed payments.[153] The experiments were conducted through varying treatments at diverse sites and among diverse populations. Two experiments, one in New Jersey and one in Pennsylvania, analyzed behavioral responses of 1,357 households in declining urban neighborhoods from 1968 until 1972.[154] Rural beneficiaries from 809 low-income households participated in income support experiments in Iowa and North Carolina from 1969 to 1973.[155] Another study restricted analysis to 1,780 black households, most of them headed by single females, in Gary, Indiana.[156] The largest of the experiments, carried out between 1971 and 1982, analyzed the behavioral responses of 4,800 low-income families in Seattle and Denver, including large numbers of white, black, and Hispanic families.[157] The experiment compared behavioral responses of study participants to one of four treatment options: (a) a negative income tax only,[158] (b) job counseling and training only, (c) both a negative income tax and job counseling and training, and (d) a control group that received neither benefit. The Seattle-Denver experiment is also noteworthy for testing a more generous income support plan

150. James R. Storey, *The Better Jobs and Income Plan: A Guide to President Carter's Welfare Reform and Major Issues* (Washington, DC: Urban Institute, 1978).
151. Burtless, "Work Response to a Guaranteed Income."
152. Munnell, "Lessons from the Income Maintenance Experiments."
153. A negative income tax, although not identical to a universal basic income, can shed light on behavioral responses for many kinds of income support proposals. Because a negative income tax provides a low level of basic income even if individuals do not work, it is functionally similar to a modified basic income. Because universal income proposals often are not means tested, one might expect the disincentives to work to be even stronger than under a negative income tax.
154. Irwin Garfinkel, "The New Jersey Income Maintenance Experiment," *Journal of Consumer Affairs* 6, no. 1 (1972).
155. Institute for Research on Poverty, "The Rural Income Maintenance Experiment" (Summary Report SR-10, US Department of Health, Education, and Welfare, Washington, DC, November 1976).
156. Robert Moffitt, "The Labor Supply Response in the Gary Experiment," *Journal of Human Resources* 14, no. 4 (1979): 477–487.
157. US Department of Health and Human Services, "Overview of the Final Report of the Seattle-Denver Income Maintenance Experiment" (summary report, 1983).
158. The experiment tested three guarantee levels, $3,800, $4,800, and $5,600 (in 1971 dollars), guided by four tax rates, a constant 50 percent rate, a constant 70 percent rate, a declining 70 percent rate, and a declining 80 percent rate.

over three years for some subjects and over five years for others.[159] The labor supply responses in each experiment were consistently robust despite these heterogeneous factors.

Each experiment reported reduced work effort or earnings among at least one studied demographic group in response to income support schemes.[160] The magnitude of the disincentive to work commoves with the generosity and duration of the income assistance.[161] For instance, the Seattle-Denver experiment, which provided the most generous income support packages over the longest periods of time, reported the largest absolute reductions in work effort.[162] The husbands who received benefits for three years exhibited a maximum work reduction of 7.3 percent during a representative year,[163] while the equivalent work effort reduction was 12.2 percent for five-year groups.

Disincentives to work were also more pronounced under lower tax rates and higher income guarantee levels.[164] For example, husbands earning a $3,800 guarantee taxed at a 70 percent rate reduced their work effort by 5.6 percent in the representative year, whereas those taxed at a 50 percent rate reduced their work effort by 6.7 percent. Husbands given a higher income guarantee of $5,600 reduced their work effort by 10.4 percent under the 70 percent tax rate and by 11.8 percent under the more generous 50 percent tax rate. The report states that reduced work effort led to increased unemployment among husbands—not to

159. Munnell, "Lessons from the Income Maintenance Experiments."
160. Note that demographic groups in some experiments were found to exert more work effort, earn more annual income, or both. For instance, black husbands in the New Jersey experiment worked more hours and earned more money, whereas white husbands were found to work fewer hours but earn more money. For a breakdown, see Burtless, "Work Response to a Guaranteed Income."
161. Ibid.
162. US Department of Health and Human Services, "Overview of the Final Report of the Seattle-Denver Income Maintenance Experiment" (summary report, 1983).
163. The researchers chose the second year of treatment as the representative year: "The best measure of the overall labor supply effect for the combination three- and five-year samples is probably the disincentive effect as measured in the second year—after all the experimentals have had time to adjust to the treatment but before the three-year families start preparing for the treatment to end." US Department of Health and Human Services, "Overview of the Final Report of the Seattle-Denver Income Maintenance Experiment."
164. Married women and heads of household responded atypically. For married women, the work effort was reduced more under the less generous 70 percent tax rate for the most generous $5,600 guarantee level (40.1 percent) than under the more generous 50 percent tax rate (28.1 percent). Under the least generous $3,800 guarantee level, married women reduced effort by 19.7 percent under the less generous declining 80 percent tax rate and by 1.6 percent under the more generous declining 70 percent tax rate. For female heads of household, the expected work effects were reversed for all but the moderately generous $4,800 guarantee level. The researchers suggest that those results imply that "female heads adjust more slowly to changes in financial incentives than do husbands or wives." They believe that married women's two atypical responses can be explained by misreporting work effort. Ibid.

skill development or job searching as some proponents had hoped. Married women and female heads of household were more likely to simply drop out of the labor force. The counseling program was actually found to decrease earnings and hours of work for most groups even after the program had ended.[165]

Despite slight variation among experimental designs, all four experiments suggested that guaranteed income schemes create a disincentive to work that reduces labor effort. The results surprised both proponents and opponents of guaranteed income schemes: the reductions in work effort were lower than many critics had anticipated but were still far above what supporters had hoped for.[166] Additionally, the results suggested that the tested income support programs might cause small increases in marriage dissolution (although these effects were often mixed and statistically insignificant) and had no discernible effect on consumption and investment decisions.[167]

By 1978, after learning the results of the experiments, Sen. Daniel Patrick Moynihan (D-NY), a leading poverty reformer and supporter of basic income proposals, voiced doubts about the viability of income support plans.[168] Indeed, the negative income tax experiments doused much of the enthusiasm for government income support proposals until later reformers periodically rediscovered these bold proposals.

The spirit of the negative income tax did survive in part through the passage of the EITC in 1975. EITC benefits are limited to working households that fall beneath a defined threshold and, therefore, do not meet the universality principle preferred by many basic income proponents. However, the EITC program does have the benefit of causing less disincentive to work for participants. The EITC is a rare federal program that receives enthusiastic, bipartisan support and encouraging academic research.[169] Empirical studies of the effects of the EITC have found that the program increases employment of program participants,[170] particularly of single mothers;[171] reduces

165. Ibid.
166. Munnell, "Lessons from the Income Maintenance Experiments."
167. Ibid.
168. "Moynihan Says Recent Studies Raise Doubts about 'Negative Income Tax' Proposals," *New York Times*, November 16, 1978, 23.
169. Robert Greenstein and Isaac Shapiro, "New Research Findings on the Effects of the Earned Income Tax Credit" (working paper, Center on Budget and Policy Priorities, Washington, DC, 1998).
170. Stacy Dickert, Scott Hauser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," in *Tax Policy and the Economy*, vol. 9, ed. James M. Poterba (Cambridge, MA: MIT Press, 1995), 1–50.
171. Bruce D. Meyer and Dan T. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," *Quarterly Journal of Economics* 116, no. 3 (2001): 1063–114.

poverty,[172] particularly among children;[173] and has provided some bulwark against widening income gaps between the rich and poor.[174] Of particular interest is the observation that labor force participation increased among groups that were eligible for previous EITC expansions while participation did not change among groups that were not eligible under the expansion.[175]

However, the findings overlook another outcome: although the program encourages workers to enter the labor force, it penalizes people who want to work more hours.[176] Indeed, a large majority of people taking the EITC have an incentive to work less, not more. The EITC's advocates also fail to mention its resulting negative impact on the nation's overall output and employment.

The EITC has not been universally embraced for many other reasons too. As mentioned earlier, it suffers from severe improper payment levels, in part because of the unmanageable complexity of the program.[177] In 2015, for instance, the Treasury Department reported that the IRS made $15.6 billion in improper payments, a rate of 23.8 percent that year.[178] Less explored in the literature but very important nonetheless is the effect of the EITC on the savings behavior of poor households. Studies show that 40 percent of the decline in saving from 1988 to 2006 for those who claim the credit can be explained by recent expansions in the EITC.[179]

Others have criticized the EITC on the grounds that much of the EITC surplus is actually captured by the employers of beneficiaries rather than by the beneficiaries themselves and that the EITC causes downward pressure on wages of nonbeneficiaries who are not compensated with offsetting EITC payments.[180] In other words, by inducing people who would not normally work to

172. Elizabeth Kneebone and Jane Williams, "New State Data Show EITC's Widespread Anti-poverty Impact" (Metropolitan Opportunity 31, Brookings Institution, Washington, DC, 2013).
173. Arloc Sherman, Danilo Trisi, and Sharon Parrott, "Various Supports for Low-Income Families Reduce Poverty and Have Long-Term Positive Effects on Families and Children" (working paper, Center on Budget and Policy Priorities, Washington, DC, 2013).
174. Jeffrey B. Liebman, "The Impact of the Earned Income Tax Credit on Incentives and Income Distribution," in *Tax Policy and the Economy*, vol. 12, ed. James M. Poterba (Cambridge, MA: MIT Press, 1998), 83–120.
175. Nade Eissa and Jeffrey Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics* 111, no. 2 (1996): 605–37.
176. Edwards and de Rugy, "Earned Income Tax Credit."
177. Kyle Pomerleau, "No Surprise: The Overly Complex EITC Is Plagued with Billions of Dollars in Improper Payments," *Tax Policy Blog* (Tax Foundation), April 23, 2013.
178. De Rugy and Fichtner, "Latest Improper Payments Figures Show a Continuing Problem."
179. Caroline E. Weber, "Does the Earned Income Tax Credit Reduce Saving by Low-Income Households?," *National Tax Journal* 69, no. 1 (2016): 41–76.
180. Jesse Rothstein, "Is the EITC Equivalent to an NIT? Conditional Cash Transfers and Tax Incidence" (NBER Working Paper 14966, National Bureau of Economic Research, Cambridge, MA, 2009).

> "Appreciation for the social value of work requirements in public assistance has a long tradition that can be traced back to the community-based poorhouses and 'charity workshops' of preindustrial Europe."

join the labor force, the EITC may be inadvertently depressing wage growth among other low-income workers who do not qualify for or participate in the EITC. Those individuals would be the forgotten men and women who are harmed by this policy. Some researchers have proposed that increasing the federal minimum wage could offset that unintended consequence,[181] but that proposal would likely create its own set of unintended consequences. The US experience with the EITC suggests that even the cleverest solutions to such a "wicked problem" can still feed the wicked problem in unanticipated ways.

Would Work Requirements Improve Outcomes?

Once they realized the extent of the disincentives to work nestled in income support proposals such as guaranteed minimum incomes and universal basic incomes, some poverty researchers began recommending that work requirements be integrated to temper the effect. Pointing to the dramatic reduction in caseloads following the PRWORA reforms that remolded AFDC into the more "workfare"-oriented TANF,[182] such researchers argue that work requirements could supplement income support programs to provide a basic safety net without causing government dependency or opening the door for abuse. Work requirements have also proved popular among Americans. A 2012 Rasmussen poll reports that 83 percent of American adults favor a work requirement

181. Isabel Sawhill and Quentin Karpilow, "Raising the Minimum Wage and Redesigning the EITC" (Center on Children and Families White Paper, Brookings Institution, Washington, DC, 2013).
182. It is important to separate the effects of TANF from background effects caused by macroeconomic changes. That welfare rolls declined and employment among former beneficiaries increased after the PRWORA reforms does not necessarily mean that TANF *caused* those effects. Poverty researchers use statistical analyses to separate the effects. Regression results indicate that the work-oriented TANF program is responsible for more than half of the decline in welfare participation and more than 60 percent of employment among single mothers. See O'Neill and Hill, "Gaining Ground?"

as a condition for receiving welfare aid.[183] Indeed, appreciation for the social value of work requirements in public assistance has a long tradition that can be traced back to the community-based poorhouses and "charity workshops" of preindustrial Europe.[184] It is easy to see how work requirements can boost the integrity of a welfare system and discourage dependency and abuse.

Nevertheless, work requirements seem to undercut the entire purpose of guaranteed income proposals. A guaranteed income is supposed to be administratively simple and broad-based with respect to income. If the government tied work requirements to income support proposals, the programs would no longer be neutral but would again require bureaucrats to oversee work requirements.[185] Some process would be needed to separate low-income Americans who are legitimately unable to work from those who are able to work. Low-income Americans who are unable to work and provide for themselves would be afforded a modest stipend without work requirements. The question of where to draw the line is a necessarily subjective one and no answer would be likely to satisfy everyone. Moreover, the process of "tagging" certain demographics to receive more generous (or less strict) welfare benefits would create an incentive for people to be incorrectly tagged so that they would qualify for special assistance.[186] Program designers would then need to determine what kind of work was eligible and how long recipients needed to work before receiving a predesignated schedule of assistance.

A number of experimental studies have tested the effects of providing cash income supplements with work requirements to reduce welfare and incentivize work.[187] Two such experimental programs—the Minnesota Family Investment Program (MFIP)[188] and the Canadian Self-Sufficiency Project (SSP)[189]—specifically tested the combined and separate effects of work

183. Rasmussen Reports, "83% Favor Work Requirement for Welfare Recipients," July 18, 2012.
184. Timothy Besley and Stephen Coate, "Workfare versus Welfare: Incentive Arguments for Work Requirements in Poverty-Alleviation Programs," *American Economic Review* 82, no. 1 (1992): 249–61.
185. Ibid.
186. George A. Akerlof, "The Economics of 'Tagging' as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning," *American Economic Review* 68, no. 1 (1978): 8–19.
187. The programs include the Minnesota Family Investment Program, the New York Child Assistance Program, the Milwaukee New Hope Program, the Vermont Work Restructuring Project, and the Canadian Self-Sufficiency Project. Additional programs tested financial incentives combined with existing welfare policies. Those are the Florida Family Transition Program, the Connecticut Jobs First Program, and the Iowa Family Investment Program. For more information, see Blank, "Evaluating Welfare Reform in the United States."
188. Cynthia Miller et al., *Reforming Welfare and Rewarding Work: Final Report on the Minnesota Family Investment Program*, vol. 1, *Effects on Adults* (New York: MDRC, 2000).
189. Charles Michalopoulos et al., *The Self-Sufficiency Project at 36 Months: Effects of a Financial Work Incentive on Employment and Income* (Ottawa: Social Research and Demonstration Corporation, 2000).

requirements and *earnings disregards* (that is, the level of income that is not counted against benefit eligibility and amount).[190] A strong earnings disregard allows beneficiaries to receive assistance while earning higher incomes without being financially penalized by high marginal tax rates. An experiment in Milwaukee, Wisconsin, called the New Hope program, analyzed (a) household responses to full-time work requirements; (b) a two-part income supplement based, respectively, on beneficiaries' number of children and income level; and (c) health and child care assistance from 1994 through 1998.[191] The MFIP was tested in 1994 and allowed employed women to receive cash assistance until their earnings exceeded 140 percent of the poverty line. Unemployed women were required to participate in job search programs. One group received the earnings disregards without work requirements. A control group received only normal AFDC assistance. Similarly, the 1992 SSP program offered a random selection of women currently on welfare the option of receiving an earnings supplement each month that they averaged 30 hours of work a week or more. A smaller random selection of women was assigned to a job search and skills training program.

The results of these programs are encouraging. Compared with negative income experiments in which both labor supplies and income levels decreased, programs that combined cash assistance with mandatory employment programs saw increases in both labor supplies *and* income levels and saw decreases in poverty rates.[192] The New Hope program, which placed a strong emphasis on full-time work, found that earnings and employment had increased among participants who were not working full time when they enrolled in the program for the first two years. Participants experienced reduced poverty rates up to five years after the program had ended, but all effects faded by eight years after program enrollment.[193] Additionally, financial incentive programs that combined assistance with work requirements were found to have beneficial outcomes for child behavior and school performance in all experiments.[194] The experiments broadly supplemented the existing understanding that work requirements can increase employment of low-income recipients and reduce welfare caseloads.

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190. Marie Cohen, "Earned Income Disregards" (WIN Issue Note 1, no. 6, Welfare Information Network, 1997).
191. Thomas Brock et al., *Creating New Hope: Implementation of a Program to Reduce Poverty and Reform Welfare* (New York: MDRC, 1997).
192. Blank, "Evaluating Welfare Reform in the United States."
193. Falk, "Temporary Assistance for Needy Families.
194. Pamela Morris et al., *How Welfare and Work Policies Affect Children: A Synthesis of Research* (New York: MDRC, 2001).

When supplemented with income support programs, such as a negative income tax or the EITC, participants' incomes also rise.[195]

Do Political Realities Imperil Guaranteed Income Proposals?

The theoretical elegance and administrative simplicity of state-supported guaranteed income proposals—both when channeled through cash subsidies and when channeled through the tax code—suffer from more than the counterproductive disincentives to work that they can create. The political realities that undergird the system through which these reforms must take place may ultimately render even the most perfect plan unattainable.[196] Indeed, many supporters of basic income guarantees spend more time refining their theoretic constructs than scrutinizing the political system that must finally enact their desired reforms. A close examination of politics—without romance[197]—yields an unpromising picture of the realistic odds for instituting reform intact.

The current system of welfare clearly is plagued by many problems—some insurmountable, others not. It is possible that a perfectly designed guaranteed income proposal could solve some or most of these problems while creating only smaller problems in the process. What is far from clear is whether that perfectly designed proposal would look the same by the time it got through a high-profile legislative battle wherein all of the stakeholders in the current system would fight tooth and nail to prevent the necessary reforms on which the proposals' ultimate success is premised.[198] Furthermore, a perfectly designed proposal, if it were miraculously able to pass through the legislative process undented, would hardly be guaranteed to withstand the political forces that have slowly thwarted the effectiveness of the current system. The stakes are as high as the government largesse on the chopping block is large: one can expect current administrators and content beneficiaries to resist reforms. Opportunistic individuals, too, could fight to secure extra benefits in the new system, thus undermining the theoretical principles on which the reform is critically predicated. In one of the worst potential outcomes, a

195. Ibid.
196. Boettke and Martin, "Taking the 'G' Out of BIG."
197. James Buchanan, "Politics without Romance: A Sketch of Positive Public Choice Theory and Its Normative Implications," in *The Collected Works of James M. Buchanan*, vol. 1, *The Logical Foundations of Constitutional Liberty* (Indianapolis, IN: Liberty Fund, 1999), 1–18.
198. Boettke and Martin, "Taking the 'G' Out of BIG."

guaranteed income proposal could merely be passed while leaving the current welfare system largely intact.[199]

Basic income proposals are a useful theoretical counter to expose the weaknesses and lost opportunities inherent in the current welfare system as a whole. As a realistic policy proposal, however, basic income proposals fail the tests of coherence and vulnerability.[200] The empirical evidence on disincentives to work is murky at best, the purported cost savings that such reform could yield are dubious, and the odds of political manipulation are high. As such, we conclude that federal guaranteed income proposals are better used as mental models than as concrete reform proposals. The stakes are simply too high and the chances of failure too great to risk a further retrenchment into the problems that plague the current system. Rather, policymakers should explore marginal reforms, such as block grants, that can partially apply the theoretical elegance of guaranteed income proposals to the current welfare system without subjecting the proposals to the same levels of risk or political opportunism.

Would Block Grants to the States Improve Outcomes?

Providing federal welfare payments to the states in the form of block grants is one way to more closely align incentives and knowledge in the welfare system. This reform option combines the deep pockets of the federal government with the increased discretion and better knowledge of more localized government bodies. Rather than burdening the federal government with properly raising and targeting spending, block granting enables the federal government to merely entrust each state with a lump-sum welfare payment to allocate according to certain conditions. Proponents of *fiscal federalism*—the idea that certain functions of government can be better served through decentralization rather than centralization—argue that state and local governments have better knowledge of the unique histories and needs of their constituents; provide more effective administration and service to beneficiaries; and have a larger incentive to cut down on waste, fraud, and abuse.[201]

199. Indeed, some basic income proponents explicitly advocate that these proposals merely constitute one portion of a holistic welfare system that includes, among other items, subsidized health care and employment benefits. For one example, see Allan Sheahen, "The Rise and Fall of a Basic Income Guarantee Bill in the United States Congress" (USBIG Discussion Paper 169, US Basic Income Guarantee Network, 2007).
200. Boettke and Martin, "Taking the 'G' Out of BIG."
201. Wallace E. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37, no. 3 (1999): 1120–49.

The PRWORA reforms of the late 1990s provide an excellent case study of the efficacy of providing welfare payments in block grants.[202] Whereas the eligibility rules, amounts, and allocation of benefits in the old AFDC program were almost entirely at the discretion of the federal government, the new TANF program placed funding and program discretion back at the state level. Rather than being beholden to one inflexible federal standard that might or might not encompass unique individuals' varied needs, the TANF block grants allowed states to tailor the programs to fit state constituents' specific necessities.

On the cost side, providing TANF benefits in block grants constrains state government profligacy.[203] Under the old AFDC program, states enjoyed open-ended federal matches of welfare spending, which ranged from $1 to $4 in federal spending for every $1 spent by the state. Lacking constraints under that generous matching program, states could simply offload the cost of increased welfare spending on the nation as a whole.[204] Thus, state politicians could abuse the AFDC funding mechanism to provide benefits at a higher level than state constituents would select if paying with their own funds. The new block grant structure of TANF ensures that state policymakers must be frugal and effective with their welfare benefits. Matching grants are replaced with defined lump sums that policymakers must carefully allocate. To encourage effectiveness, states that satisfactorily decrease state welfare rolls are rewarded with increased block grant amounts.[205] As mentioned earlier, TANF's combination of work requirements, block grants to states, and time limits broadly accomplished the stated goals of welfare reformers, with the exception of promoting marriage and reducing out-of-wedlock births.[206]

The PRWORA move to providing welfare payments in block grants was not without its detractors. Sen. Tom Daschle (D-SD) called the fiscal federalist

202. Daniel Sutter, "Welfare Block Grants as a Guide for Medicaid Reform" (Mercatus Working Paper 13-07, Mercatus Center at George Mason University, Arlington, VA, 2013).
203. Ibid.
204. Elizabeth T. Powers, "Block Granting Welfare: Fiscal Impact on the States" (Occasional Paper 23, Urban Institute, Washington, DC, 1999).
205. In fact, some state policymakers supported the PRWORA reforms on the grounds that the new block granting amounts might actually exceed the old matching rates, contrary to the "race to the bottom" concerns of PRWORA opponents. The new block granting system did indeed reward states that effectively applied their welfare spending. In 1998, a Government Accountability Office report noted that "more federal and state resources are available for states' low-income family assistance programs since welfare reform passed in 1996 than would have been available under the previous system of financing welfare programs consolidated in the TANF block grant." See US General Accounting Office, "Welfare Reform: Early Fiscal Effects of the TANF Block Grant," Report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives, GAO/AIMD-98-137, 1998, 4–5.
206. Blank, "Evaluating Welfare Reform in the United States."

proposal "extremist" on the Senate floor, and fellow welfare reformer Sen. Daniel Patrick Moynihan (D-NY) put a finer point on the issue, predicting that after "the most brutal act of social policy since Reconstruction,"[207] "those involved will take this disgrace to their grave."[208] Critics widely assailed the proposed TANF program as the first step of a "race to the bottom" in which state governments would brutally cut welfare beneficiaries off the rolls to comply with federal guidelines, regardless of beneficiaries' needs.[209] Scrooge-like states would seek to save a few bucks by reducing welfare generosity and inducing low-income denizens to migrate to states with generous welfare packages, critics claimed. Those generous states would then be overwhelmed with welfare caseloads and would in turn reduce their own benefit generosity, thus inciting the feared race to the bottom.[210]

The PRWORA block grant reforms did not incite the race to the bottom that critics alleged.[211] States did not merely structure their requirements to render beneficiaries unqualified to receive benefits to meet federal guidelines, as opponents argued, but, in fact, benefit levels averaged across the states actually *increased* by 0.7 percent between 1996 and 2002.[212] How then did states manage to reduce their caseloads if they did not do it through reduced benefit generosity? To find out, we consider the major factors that influence welfare caseloads. Empirical research indicates three major factors: benefit level, economic conditions, and sanction strength.[213] *Sanction strength* refers to the level and consistency of state-enforced beneficiary eligibility rules. States can opt to be strict or to be lax with the kinds and numbers of violations that they will tolerate before rescinding all or part of a beneficiary's welfare payment.[214] As noted earlier, economic conditions were

207. Sen. Carol Moseley-Braun and Sen. Daniel Patrick Moynihan, Letter to President Clinton, March 4, 1996, reprinted in Daniel Patrick Moynihan, *Miles to Go: A Personal History of Social Policy* (Cambridge, MA: Harvard University Press, 1996), 58.
208. "Welfare as They Know It," editorial, *Wall Street Journal*, August 29, 2001.
209. Peter Edelman, "The Worst Thing Bill Clinton Has Done," *Atlantic*, March 1997.
210. Irene Lurie, "Temporary Assistance for Needy Families: A Green Light for the States," *Publius* 27, no. 2 (1997): 73–87.
211. Sutter, "Welfare Block Grants as a Guide for Medicaid Reform."
212. Michael J. New, "State Sanctions and the Decline in Welfare Caseloads," *Cato Journal* 28, no. 3 (2008): 515–33.
213. Ibid.
214. Michael New notes the three levels of state sanctions: "1. Full family sanctioning: Some states sanction the entire TANF check at the first instance of nonperformance of required work or other activities. This is the strongest sanction a state can apply. 2. Graduated sanctioning: States that do not sanction the entire TANF check at the first instance of nonperformance but will sanction the full TANF check after multiple infractions. 3. Partial sanctioning: Some states sanction only the adult portion of the TANF check, even after repeated infractions. This enables recipients to retain the bulk of their TANF benefits even if they fail to perform workfare or other required activities." Michael

found to be responsible for roughly 10 percent of the decline in caseloads during that time. Some studies find that sanction strength has the largest effect on the corresponding decrease in welfare rolls; the more stringent a state's sanctions, the greater the reduction in welfare rolls.[215] However, in this particular case, many of the outcomes can be explained by a quirk of the policy design. Through the caseload reduction credit provision,[216] states could apply caseload reductions toward the fulfillment of work requirement quotas. Caseworkers did not have to expend as many resources pushing beneficiaries who were particularly difficult to employ into jobs. In other words, states were able to substitute case reductions in some areas against difficult-to-meet work requirement quotas in others without affecting benefit levels.[217] Additionally, a small but noteworthy number of people who would have normally enrolled in TANF were instead diverted to Supplemental Security Income, an entirely federally funded program with no work requirements or time limits and more generous benefits.[218]

Nor did the PRWORA reforms result in massive child poverty, as "race to the bottom" critics alleged. The child poverty rate dropped from 20.5 percent in 1996 to 16.7 percent in 2002 in tandem with a national decrease in TANF caseloads by 60 percent.[219] Indeed, the PRWORA reforms largely accomplished their designers' stated goals while avoiding the hypothetical problems alleged by early

"States were able to substitute case reductions in some areas against difficult-to-meet work requirement quotas in others without affecting benefit levels."

J. New, "Welfare Reform That Works: Explaining the Welfare Caseload Decline, 1996–2000" (Policy Analysis 435, Cato Institute, Washington, DC, May 7, 2002), 4.
215. See New, "State Sanctions and the Decline in Welfare Caseloads"; New, "Welfare Reform that Works"; and Robert Rector and Sarah E. Youssef, "The Determinants of Welfare Caseload Decline" (Center for Data Analysis Report 99-04, Heritage Foundation, Washington, DC, 1999).
216. Mandatory Work Requirements, 7 42 U.S.C. § 607(b)(3).
217. Elizabeth G. Patterson, "Mission Dissonance in the TANF Program: Of Work, Self-Sufficiency, Reciprocity, and the Work Participation Rate," *Harvard Law and Policy Review* 6, no. 2 (2012).
218. Lucie Schmidt and Purvi Sevak, "AFDC, SSI, and Welfare Reform Aggressiveness: Caseload Reductions versus Caseload Shifting," *Journal of Human Resources* 39, no. 3 (2004): 792–812.
219. Sutter, "Welfare Block Grants as a Guide for Medicaid Reform."

critics. Some of the original skeptics later changed their tune. Wendell Primus, a Department of Health and Human Services staffer who resigned in protest over the PRWORA reforms, later admitted, “In many ways welfare reform is working better than I thought it would. The sky is not falling anymore. Whatever we have been doing over the past five years we ought to keep doing.”[220] The US experience with welfare benefit block grants remarkably met and exceeded the expectations of supporters and detractors alike.

Like TANF benefits, other federal welfare program benefits could be granted to states or consolidated into a single payment to be distributed at the state level. The success of providing TANF payments through block grants to states, combined with program work requirements and reasonable sanctions to encourage self-sufficiency, provides insight into the efficacy of decentralization and credible cost constraints in decreasing welfare rolls by decreasing poverty. Rather than encouraging a race to the bottom, those reforms stimulated a nationwide ascent away from poverty.

CONCLUSION

Poverty is a complex problem that does not have a straightforward solution. Poverty policy builds on this existing complexity to yield confusion of its own. In our exposition of the history and assumptions that built the existing US welfare state, we examined the problems it created and the according forces that inoculate the status quo from meaningful reform. The system is complex and paternalistic. It reduces the ability of the poor to contribute to the economy while adding to their life stressors. Misaligned bureaucratic incentives result in a welfare administration that serves the interests of principal ahead of the agents that justify their employment. High implicit marginal tax rates and generous untaxed welfare benefits prompt rational actors to choose welfare over work, thus contributing to the cycle of welfare dependency. Finally and fundamentally, social planners lack the stunning amount of knowledge necessary to effectively engineer social outcomes as desired. Despite those problems, true measures of poverty have dropped considerably over the past five decades—but the credit belongs to economic growth, not government welfare programs. Moreover, government welfare programs still remain costly and ineffective for the many Americans who have not yet escaped the welfare trap. Americans can and should do better for their fellow citizens.

220. Blaine Harden, “Two-Parent Families Rise after Change in Welfare Laws,” *New York Times*, August 12, 2001.

We explored a number of reform options that could restructure the welfare system to respect the dignity of low-income Americans, better align incentives of welfare administrators, and make better use of dispersed knowledge. Guaranteed income proposals, including income guarantees and negative income taxes, are initially compelling but become riddled with caveats on deeper scrutiny. Although undoubtedly less paternalistic than the status quo, many of the other purported benefits of those proposals fall apart on examination: it is still unclear that such reforms would prove any more affordable or create any less disincentive to work than exists in the status quo. Furthermore, those ambitious reforms suffer a high risk of political manipulation that could ultimately render even the best-designed plan toothless.

Policymakers could combine marginal reforms to harness the intuition behind guaranteed income proposals while shielding vulnerable beneficiaries from the uncertain ravages of American special-interest politics. Providing federal welfare program payments to states through block grants would make better use of knowledge and promote better stewardship of welfare funds, as the US experience with TANF federalism demonstrates. The federal government could simply consolidate and transfer all the funds currently earmarked for separate federal welfare programs to one block grant for each state. States then could tailor their programs to suit the unique needs of their citizens. Low-income Americans who are incapable of providing for themselves could receive a single payment from their state government to fund living expenses. Low-income Americans who are simply experiencing temporary hardship could receive state transfers on the condition of work requirements structured to minimize or eliminate the disincentives to work. Empirical evidence of previous success buoys the efficacy of each element on its own; combined, they could simultaneously address the diverse problems that plague the system as a whole.

The special interest barriers preventing effective welfare reform in the United States often appear insurmountable, but they have been tamed before. The efficacy of the PRWORA reforms, although confined to the TANF program, provides a case study of real, albeit imperfect, welfare reform that pulled a hat trick of political consensus, theoretical integrity, and intended results. The valuable lessons of those reforms should be extended to other existing federal poverty programs to similarly improve outcomes, conserve welfare resources, and maintain program integrity. Experimental research testing variations of this specific method can provide further insights and support for reform. The real challenge will reveal itself in the political push for reform. Even the most divine of theories and empirics must survive the ugly reality of politics unscathed to secure success. Welfare reform must remain resolute in its principles—or risk further retrenchment into the dysfunctional status quo.

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