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RESEARCH SUMMARY

US ANTIPOVERTY POLICY AND REFORM

After more than half a century, America's welfare system can boast few clear successes. 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.

A new study published by the Mercatus Center at George Mason University provides a history of the welfare system, discusses various reform efforts, and proposes implementing a system of block grants to states to finance income support programs.

To read this study in its entirety and learn more about its authors, Mercatus Senior Research Fellow Veronique de Rugy and Andrea Castillo, manager of the Mercatus Center's Technology Policy Program, please see "US Antipoverty Policy and Reform."

KEY POINTS

- True measures of poverty have declined considerably over the past five decades. This trend has been driven largely by economic growth, not by government welfare programs.
- The current welfare system is needlessly complex and paternalistic, it misaligns incentives for both administrators and participants, and it requires policymakers to make plans based on knowledge that is by nature inaccessible to them.
- Several "basic income" and "negative income tax" reforms have been proposed over the past five decades, many of which have been field tested and show varying degrees of success.
- Policymakers should learn from past welfare reform successes and replace the current patchwork of programs with block grants to states, leveraging the superior knowledge and incentives of local governments to provide a safety net that is appropriate for the needs of the individuals it serves.

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THE EVOLUTION OF THE CURRENT SYSTEM

The federal government first assumed dominance in welfare spending during the Great Depression with the advent of the Aid to Dependent Children program (later renamed Aid to Families with Dependent Children, or AFDC) which largely supported single mothers who were unable to provide for their children. Spending on welfare accelerated during the 1960s with President Johnson's Great Society reforms. Welfare reform finally came in 1995, replacing AFDC with the more work-oriented Temporary Assistance for Needy Families (TANF), which operates as block grants to states. The TANF reform's effects on program outcomes were broadly positive. Still, the sprawling, piecemeal mess of other federal antipoverty programs went largely untouched, and it has grown significantly under the Obama administration.

The reforms of the 1990s were a tenuous step in the right direction, but the road to a better welfare system is longer still. The problems with the current US system include the following:

- *Complexity*. The system's piecemeal nature and programmatic complexity expensively reduce the utility and welfare of the poor. Many low-income Americans only enroll in one or two of the programs for which they qualify, a problem attributable to welfare complexity.
- *Misaligned bureaucratic incentives*. Social planners sometimes craft programs to serve other interests before those of the poor, allowing the state to maintain power over poor recipients by placing strings on the monopoly of public assistance.
- *Disincentives to work*. The structure of marginal tax rates and the number of state-subsidized alternatives to gainful employment generate considerable disincentives to work that leave beneficiaries uncomfortably dependent on public programs.
- *The knowledge problem*. Policymakers assume that they have the proper knowledge to effectively engineer social outcomes. Unfortunately, individuals' varied needs and means cannot be beneficially distilled into the format that central planning requires.

REFORMS

Income Support Proposals

Potential reforms to welfare include income support proposals such as guaranteed minimum income and negative income taxes. These proposals are theoretically attractive but contain major flaws.

- Guaranteed minimum incomes are cash transfers that would replace the byzantine maze of welfare programs with a single cash transfer to members of qualifying groups.
- Negative income taxes aim to provide a basic income through the tax code by paying impoverished people who make less than the lowest tax bracket. The earned income tax credit acts as a negative income tax for working people.

Such proposals could reaffirm the autonomy of the poor while reducing bureaucratic stress and expanding low-income families' options. They would also better address the knowledge problem that jeopardizes contemporary welfare outcomes.

However, experiments show that income support schemes often create a disincentive to work unless they are combined with explicit work requirements. Furthermore, the purported cost savings that such reforms could yield are dubious, and these programs are vulnerable to political manipulation.

Block Grants

Rather than burdening the federal government with the responsibility to properly target spending, block grants could be issued directly to states, enabling them to tackle poverty themselves.

- Block granting allows the federal government to entrust a lump-sum welfare payment to each state to allocate according to certain conditions.
- Such a reform would combine the deep pockets of the federal government with the increased discretion and better knowledge of more localized government bodies.
- TANF is a federal experiment in block granting that has been a remarkable success, meeting and exceeding the expectations of supporters and detractors alike.

States can use block grants to pursue empirically proven strategies that meet the specific needs that come with the varying contexts of poverty.

- Low-income Americans who are incapable of providing for themselves could receive a single payment from their state government to fund living expenses, an improvement over the myriad confusing programs these individuals must navigate today.
- Low-income Americans who are simply experiencing temporary hardship could receive state transfers that come with the condition of work requirements that are structured to minimize or eliminate the disincentives to work.