

January 18, 1993

A COMPREHENSIVE URBAN POLICY: HOW TO FIX WELFARE AND REVITALIZE AMERICA'S INNER CITIES

Let's make welfare a second chance, not a way of life. I want to erase the stigma of welfare for good by restoring a simple, dignified principle: no one who can work can stay on welfare forever.

It's time to honor and reward people who work hard and play by the rules....that means providing opportunity, demanding responsibility, and ending welfare as we know it.

Bill Clinton,
"On Rewarding Work" (Clinton campaign document)

EXECUTIVE SUMMARY

Your own comments during the campaign, President-elect Clinton, show that you recognize—like most Americans—that the welfare system is a failure. It has been 25 years since the urban riots of the 1960s led President Lyndon Johnson to ask Congress for a massive expansion of urban welfare programs. But the 1992 riots in Los Angeles show the problems of the inner city have not been solved. Indeed, in most respects, they have become worse.

This is not because of a lack of government spending. In 1990, federal, state, and local governments spent \$226 billion on assistance programs for low-income persons.¹ This figure includes only spending on programs for the poor and near-poor; it excludes middle-class entitlements such as Social Security and Medicare. Adjusting for inflation, total welfare spending in 1990 was five times the level of spending in the mid-1960s, when the War on Poverty began. In fact, total welfare spending on the War on Poverty since 1964 has been \$3.5 trillion (in constant 1990 dollars)—an amount, after adjusting for inflation, greater than the entire cost of World War II.

¹ Robert Rector, "The Paradox of Poverty: How We Spent \$3.5 Trillion Without Changing the Poverty Rate," *Heritage Lecture* No. 410, p. 1.

The plight of America's inner cities is powerful testimony not only to government failure in welfare, but also to the deterioration of the criminal justice and education systems. The welfare problem is not merely the very high level of spending; it is that nearly all welfare expenditure is replete with perverse incentives that promote self-destructive behavior among the poor. Similarly, America's criminal justice system has failed utterly in its basic task of removing dangerous repeat felons from the inner-city communities where they victimize the law-abiding poor at a terrifying rate. And while it is bad enough that America's public school system has arrested the intellectual development of middle-class youth, as evidenced by virtually every measure of academic performance, the real catastrophe is that in many cases it has left the children of the urban poor without even basic reading and math skills.

Complicating your attempts to reform welfare and urban policy is that too many self-proclaimed minority cultural and political leaders, as well as urban power brokers, have watched the alarming decline of moral values and family structure in the inner city with apparent indifference. When the War on Poverty began in the mid-1960s, roughly one out of four black children was born out of wedlock. Today the figure is two out of three. Similar trends have occurred among low-income whites. But too many powerful political and community leaders not only remain silent about these problems, they actively criticize reformers who dare to comment on them.

As President, you must take the lead to reform the anti-poverty system, and thus give substance to your bold campaign promises. Specifically, there are five actions you must take to begin to address the disastrous condition of America's inner cities:

Action 1: Take steps that will achieve a comprehensive reform of the welfare system.

Americans increasingly recognize that the current welfare system is harming the poor rather than helping them. Welfare has undermined the family and promoted long-term dependency. Your Administration can fulfill your solemn pledge to transform welfare from a one-way hand-out into a system of mutual obligation. As Ben Wattenberg, your vocal supporter at the American Enterprise Institute, has observed, welfare reform is the "read my lips" pledge of the Clinton Administration. You must deliver on it. You must achieve legislation that will require responsible behavior from welfare recipients as a condition of receiving benefits. You must also win changes in the law that will convert welfare from a system which rewards non-work and single parenthood into one which rewards work and marriage. The most important factor in changing the welfare incentive system is to require most able-bodied welfare recipients to work in exchange for the benefits they receive.

Action 2: Improve inner-city education by supporting real school choice.

Your Administration must also improve the education of low-income children by promoting true competition in education. This means nothing less than empowering low-income parents, through vouchers, to choose the schools their children will attend. Choice must not be restricted to public schools only. In many inner cities, the only schools that provide an acceptable level of education are private. The rich and powerful already have school choice; the poor and powerless do not. If you and Al Gore and Jesse Jackson all can decide to send your children to private schools, a poor parent should have the same choice.

Including religious schools in any education choice plan is also crucial. The reason: The empirical evidence supports the role of religious institutions in improving the quality of life of inner-city children. The inner-city church is the primary bulwark in the fight against crime, poverty, and despair. Religious belief is the strongest single factor in determining whether or not a poor child will finish school and escape from poverty. An urban policy which ignores the role of religious institutions is doomed to failure.

Action 3: Create jobs by signing enterprise zone legislation.

By removing high taxes and excess government regulation, enterprise zones can create jobs and economic opportunity in designated urban areas. The majority of states have enacted such zones, and they have proved successful.² The effectiveness of urban enterprise zones can be greatly expanded if the federal government joins state and local governments in offering regulatory and tax relief within the targeted areas. Legislation was passed by both houses of Congress last year, as part of a huge tax bill, and was vetoed by George Bush. Ask for the enterprise zone provisions to be strengthened and sent to you as a separate bill, and then sign it.

Action 4: Launch a War on Crime.

America's crime rate is alarming. And the most frequent victims of crime are black and poor. High crime rates also drive business and jobs out of the inner city. But this problem can be controlled if your Administration has the will to do it.

The majority of serious crime is committed by no more than three percent of the male population. But the criminal justice system today operates like a revolving door, arresting chronic criminals repeatedly, and quickly dumping them back into urban communities where they prey on their poor victims again and again.

The key to restoring public safety in urban America is to incarcerate these persistent criminals and keep them off the streets. To do this, you should commit your Administration to encouraging a significant expansion of prison capacity at the state and local level. The reward: Repeat offenders can be locked away where they can do no further harm to the community.

Action 5: Lead a campaign to restore moral values and personal responsibility within the inner-city communities.

The plight of the inner-city poor is rooted in underclass behaviors: illegitimacy, non-work, crime, and drugs. These behaviors are in turn molded by the prevailing values and norms of low-income communities. As President, you must raise to national prominence a "new breed" of community leaders who will be heard and respected by the inner-city poor. These leaders must promote moral renewal within urban communities, restoring a sense of respect to study and learning, the dignity of all labor, and the sanctity of marriage. They must stress the broad opportunities available to Americans of all races and the enduring link between personal values and behavior and success or failure in our society.

The problems of the inner city are severe and the task before you is great. However, if you adhere to your campaign promise to break sharply with liberal policies of the past, the potential for improving the lives of disadvantaged Americans is also great.

HOW WELFARE HAS HARMED THE POOR

Welfare spending by federal, state, and local governments reached a record high of \$226 billion in 1990, the latest year for which complete data are available. This amounted to 4.1 percent of America's gross national product. This is the same proportion that was spent during the Great Depression of the 1930s, when a quarter of the labor force was unemployed. Total welfare spending is now more than twice the level needed to raise the incomes of all poor Americans above the official poverty income thresholds.

² Carl F. Horowitz, Ph.D., "New Life for Federal Enterprise Zone Legislation," Heritage Foundation *Background* No. 833, June 4, 1991, p. 3.

The reason that Americans are so critical of the welfare system is not just its very high costs, but also the accurate perception that welfare actually has harmed the very poor people it is intended to help.

To understand why this is so, and how to reform the system, one must begin with an understanding of two separate concepts of poverty: "material poverty" and "behavioral poverty." Material poverty means, in the simplest sense, having a family income below the official poverty income threshold, which was \$13,942 for a family of four in 1991. To the ordinary American, to say someone is "in poverty" implies that he is malnourished, poorly clothed, or lives in filthy, dilapidated, and overcrowded housing. In reality, there is little material poverty in the U.S., at least in the sense generally understood by the public.³

Many of your advisors no doubt will tell you that poverty is widespread. But as they tell you this, you must maintain a historical perspective. Remember that in 1990, after adjusting for inflation, the per capita expenditures of the one-fifth of the U.S. population with the lowest income exceeded the per capita income of the median American household in 1960.⁴

Beware also of claims of widespread hunger and malnutrition among the poor. There is little or no poverty-induced malnutrition in the U.S. Persons defined by the U.S. government as "poor" have almost the same average level of consumption of protein, vitamins, and other nutrients as persons in the upper middle class.⁵ Children living in "poverty" today, far from being malnourished, actually grow up to be one inch taller and ten pounds heavier than the average child of the same age in the general population in the late 1950s.⁶ The principal nutrition-related problem facing poor persons in the United States today is not "hunger"—it is obesity. Remarkably, the poor in the U.S. have a higher rate of obesity than do members of other socioeconomic groups.

Likewise, you must resist liberal propaganda that America's poor are generally ill-housed. "Poor" Americans have more housing space and are less likely to be overcrowded than the average citizen in Western Europe.⁷ Nearly all of the American poor live in decent housing that is reasonably well-maintained. In fact, nearly 40 percent of the households defined as "poor" by the U.S. government actually own their own homes.⁸

While few of today's poor are malnourished or ill-clothed, many suffer from what might be called poverty of the spirit, a "behavioral poverty." Behavioral poverty refers to a breakdown in the values and conduct which lead to the formation of healthy families and communities, stable personalities, and self-sufficiency. It incorporates a cluster of social pathologies, including: eroded work ethic and dependency, a lack of educational aspiration and achievement, the inability or unwillingness to control one's children, increased single parenthood and illegitimacy, criminal activity, and drug and alcohol abuse. While material poverty may be rare in the United States, behavioral poverty is entrenched and growing.

³ Robert Rector, "How the Poor Really Live: Lessons for Welfare Reform," Heritage Foundation *Backgrounder* No. 875, January 31, 1992.

⁴ Robert Rector, Kate Walsh O'Beirne, and Michael J. McLaughlin, "How Poor are America's Poor?" Heritage Foundation *Backgrounder* No. 791, September 21, 1990, p. 2.

⁵ Robert Rector, "Food Fight: How Hungry Are America's Children?", *Policy Review*, Fall 1991, pp. 38-43. Robert Rector, "Hunger and Malnutrition Among American Children," Heritage Foundation *Backgrounder* No. 843, August 2, 1991.

⁶ Bernard D. Karpinos, *Height and Weight of Military Youths* (Medical Statistics Division, Office of the Surgeon General, Department of the Army, 1960), pp. 336-351. Information on the current height and weight of youths provided by the National Center for Health Statistics of the U.S. Department of Health and Human Services based on the National Health and Nutrition Examination Survey.

⁷ Rector, "How the Poor Really Live," *op. cit.*, pp. 12-13.

⁸ *Ibid.*

The central dilemma of the welfare state is that the prolific government spending intended to alleviate material poverty has led to a staggering increase in "behavioral poverty." The War on Poverty may have raised the material standard of living of some Americans, but at the cost of creating whole communities where traditional two-parent families have vanished, work is rare or non-existent, and multiple generations have grown up dependent on government transfers.

Negative Incentives. This happens because the current welfare system is plagued with negative incentives. It is a system which offers each single mother with two children a "pay-check" of combined benefits worth an average of between \$8,500 and \$15,000, depending on the state.⁹ The mother has a contract with the government: She will continue to receive her "paycheck" as long as she fulfills two conditions:

- 1) She must not work; and
- 2) She must not marry an employed male.¹⁰

Thus, the system makes marriage economically irrational for most low-income parents. It converts the low-income working husband from a necessary breadwinner into a net financial handicap. It transforms marriage from a legal institution designed to protect and nurture children into an institution which financially penalizes nearly all low-income parents who enter into it.

Across the nation, the current welfare system has all but destroyed family structure in the inner city. Welfare establishes strong financial disincentives effectively blocking the formation of intact, two-parent families. Example: Suppose a young man in the inner city has fathered a child out of wedlock with his girlfriend. If this young father abandons his responsibilities to the mother and child, government will step in and support the mother and child with welfare. If the mother has a second child out of wedlock, as is common, average combined benefits will reach around \$13,000 per year.

If, on the other hand, the young man does what society believes is morally correct and behaves responsibly, that is, marries the mother and takes a job to support the family, government policy takes the opposite course. Welfare benefits would be almost completely eliminated. If the young father makes more than \$4.50 per hour, the federal government actually begins taking away his income through taxes. The Family Support Act of 1988 will permit the young father to marry the mother and join the family to receive welfare, but only as long as he does not work.¹¹ Once he takes a full-time job to support his family, the welfare benefits are quickly eliminated and the father's earnings are subject to taxation.

Significantly, the onset of the War on Poverty coincided with the disintegration of the low-income family—the black family in particular. At the outbreak of the Second World War, the black illegitimate birth rate was slightly less than 19 percent. Between 1955 and 1965 it rose slowly, from 22 percent in 1955 to 28 percent in 1965. But beginning in the late 1960s, the relatively slow growth in black illegitimate births skyrocketed—reaching 49 percent in 1975 and 65 percent in 1989. If current trends continue, the black illegitimate birth rate will reach 75 percent within ten years. Similar trends are occurring among low-income whites.¹²

⁹ This sum equals the value of welfare benefits from different programs for the average mother on AFDC.

¹⁰ Technically the mother may be married to a husband who works part-time at very low wages and still be eligible for some aid under the AFDC-UP program. However, if the husband works a significant number of hours per month even at a low hourly rate, his earnings will be sufficient to eliminate the family's eligibility to AFDC and most other welfare.

¹¹ The 1988 federal welfare law required all states to establish an AFDC-UP program by October 1, 1990. Prior to passage of the 1988 welfare law, 23 states did not have an AFDC-UP program; those states are allowed to limit AFDC-UP cash benefits to six months, but are required to continue to provide Medicaid as long as the family was otherwise eligible for AFDC.

Generous welfare benefits to single mothers have contributed directly to the rise in illegitimate births.¹³ Recent research by C. R. Winegarden, of the University of Toledo, found that half of the increase in black illegitimacy in recent decades could be attributed to the effects of welfare.¹⁴ Research by Shelley Lundberg and Robert D. Plotnick, of the University of Washington, shows that an increase of roughly \$200 per month in welfare benefits per family causes the teenage illegitimate birth rate in a state to increase by 150 percent.¹⁵ June O'Neill of Baruch College in New York City has found that a 50 percent increase in the value of monthly Aid to Families with Dependent Children (AFDC) and Food Stamp payments results in a 43 percent increase in the number of out of wedlock births in a state.¹⁶ Similarly, high benefits discourage single mothers from remarrying. Research by Dr. Robert Hutchens of Cornell University shows that a 10 percent increase in AFDC benefits in a state will cause a decrease in the marriage rate of all single mothers in the state by 8 percent.¹⁷

Penalizing Work. Among the poor, another devastating legacy of the past 25 years has been the dramatic reduction in work effort. For a growing number of poor Americans, the existence of generous welfare programs makes not working a reasonable alternative to long-term employment. During the late 1960s and early 1970s, social scientists at the Office of Economic Opportunity (OEO) conducted a series of controlled experiments to examine the effect of welfare benefits on work effort. The longest running and most comprehensive of these experiments was conducted between 1971 and 1978 in Seattle and Denver, and became known as the Seattle/Denver Income Maintenance Experiment, or "SIME/DIME."

Advocates of expanding welfare had hoped that SIME/DIME, and similar experiments conducted in other cities, would prove that generous welfare benefits did not adversely affect work effort. Instead, the SIME/DIME experiment found that every \$1.00 of extra welfare given to low-income persons reduced labor and earnings by \$0.80.¹⁸ The results of the SIME/DIME study are directly applicable to existing welfare programs: Nearly all have strong anti-work effects such as those studied in the SIME/DIME experiment.

The effects of welfare in undermining the work ethic are quite apparent. In the mid-1950s, nearly one-third of poor households were headed by an adult who worked full time throughout the year. Today, with greater welfare benefits available, only 16.4 percent of poor families are headed by a full-time working adult.

Inter-Generational Dependence. Of the 4.4 million families currently receiving assistance through AFDC, well over half will remain dependent for over ten years, many for fifteen years or longer.¹⁹ Welfare dependency also appears to spread from one generation to another. Children raised in families that receive welfare assistance are themselves three times more likely to

12 U.S. Department of Health and Human Services, National Center for Health Statistics. Note: The black illegitimate birth rate is available only from 1969 on. The pre-1969 black illegitimate birth rates were calculated using the very similar "non-white" rate.

13 For a review of the relationship between welfare and family structure, see Charles Murray, "Welfare and the Family: The U.S. Experience," *Journal of Labor Economics*, forthcoming.

14 C.R. Winegarden, "AFDC and Illegitimacy Ratios: A Vector Autoregressive Model," *Applied Economics*, March 1988, pp. 1589-1601.

15 Shelley Lundberg and Robert D. Plotnick, "Adolescent Premarital Childbearing: Do Opportunity Costs Matter?" June 1990, a revised version of a paper presented at the May 1990 Population Association of America Conference in Toronto, Canada.

16 M. Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants*, forthcoming paper; research funded by Grant No. 88 ASPE201A, U.S. Department of Health and Human Services.

17 Robert Hutchens, "Welfare, Remarriage, and Marital Search," *American Economic Review*, June 1989, pp. 369-379.

18 Gregory B. Christiansen and Walter E. Williams, "Welfare Family Cohesiveness and Out of Wedlock Births," in Joseph Peden and Fred Glahe, *The American Family and the State* (San Francisco: Pacific Institute for Public Policy Research, 1986), p. 398.

19 David Elwood, *Targeting "Would-be" Long-term Recipients of AFDC* (Washington, D.C.: U.S. Department of Health and Human Services, January 1986), p. 5.

