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The Risks and Rewards of Welfare Reform

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With tax reform finally behind us, President Trump has been dropping hints that welfare reform might be the administration's next big undertaking.

Few areas of government are as ripe for reform as our bloated, inefficient, and ineffective welfare system. The United States has spent more than \$23 trillion fighting poverty, roughly \$1 trillion last year alone. Yet all this spending has bought us surprisingly little. Although far from conclusive, the evidence suggests that our welfare system has marginally reduced the number of people living in poverty, while helping to reduce its deprivations for millions of others. This shouldn't be a big surprise. No matter how dim a view one takes of governmental competence in general, it would be virtually impossible for the government to spend \$23 trillion on welfare without helping at least some poor people.

But by the broader and more important benchmark — enabling people to rise above poverty, to become self-sufficient and able to care for their families, to achieve all that they can achieve — welfare has clearly failed.

The War on Poverty was launched, in the words of President Johnson, not only to “relieve the symptom of poverty, but to cure it and, above all, to prevent it.” Yes, Johnson sought to meet the “basic needs” of those in poverty, but also to “replace despair with opportunity.” But walk through poor communities today, from Baltimore's “Sandtown” to Owsley, Ky., and it becomes increasingly difficult to pretend that people are flourishing in any meaningful sense.

Of course, many of the answers to poverty — criminal-justice reform, school choice, occupational-licensing reform, the elimination of other barriers that prevent the poor from participating in a growing economy, and efforts to fight systemic racism and sexism — lie outside the welfare system. And, of course, simply increasing economic growth will do more to relieve poverty than any government program ever could. But there should be no doubt that we can also do better when it comes to welfare.

For instance, our current welfare system is a bureaucratic nightmare. There are at least 70 different programs that provide benefits to individuals and more than 30 other anti-poverty programs, all with different rules, eligibility requirements, management, and oversight. At the same time, the system increasingly provides payments not to the poor themselves, but to an industry of landlords, doctors, grocers, and others who serve the poor. Only about 21 cents of every dollar spent on welfare is actually paid in cash to recipients. It is almost as if the system was set up to benefit everyone except the poor.

At the same time, welfare as we know it today gets the incentives all wrong. The combination of lost benefits and taxes means that someone leaving welfare for work faces some of the highest marginal tax rates in the world. Likewise, two welfare recipients who marry can suffer a significant loss of benefits. There should be bipartisan agreement that this is bad policy.

Therein lies the political opportunity for President Trump.

Unfortunately, the peril is that Trump appears to see welfare reform as another chance to stoke resentment among his white working-class base, rather than as a chance to help the poor. At a speech in Missouri last month, he complained that people were “taking advantage of the system”:

I know people, they work three jobs and they live next to somebody who doesn't work at all. And the person who's not working at all and has no intention of working at all is making more money and doing better than the person that's working his and her a** off.

Such inflammatory rhetoric may well generate applause, but risks undermining any potential consensus for reform. Worse, the Trump administration's first forays into welfare policy, such as approving plans by Wisconsin and other states to drug test food-stamp recipients, have seemed unduly punitive.

Welfare reform could be both a political winner and an opportunity to do something tangible to benefit those who need it the most. It is a chance to show that the answer to poverty does not lie in creating new programs or spending more money. It is a chance to rewrite for the better 50 years of failed American public policy.

Whether or not President Trump is the man to take advantage of this chance is still an open question.

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