

**WELFARE PROGRAMS FOR THE GLOBAL ERA:
LESSONS FROM THE U.S. EXPERIENCE**

BONG JOON YOON*

State University of New York at Binghamton

Poverty has been ubiquitous throughout history and across nations. It exists even in the richest nations amidst the unprecedented prosperity of the 21st century. The promises of the global era do not lessen the urgency of coping with the poverty problem of the society. This paper introduces the performance of the social safety net measures of the United States in dealing with poverty. It focuses on the effectiveness of the welfare reforms of 1996. Based on the US experiences, we purport to draw policy lessons universal to any society coping with poverty.

Keywords: Poverty, Globalization, Social Safety Net, Welfare Reform

JEL classification: I30, I38

1. INTRODUCTION

Poverty has been ubiquitous throughout history and across nations. It exists even in the richest nations amidst the unprecedented prosperity of the 21st century. People fall into the poverty trap sometimes on account of their own faults. Their foolish decisions in business or personal finance, excessive spending habit, and shirking in the workplace lead to pecuniary ruins, which they can blame none but themselves. Other times, the accidents of life dice them into misery: being born with congenital disabilities or raised under the care of incompetent parents unable to prepare them for independent adulthood. Or by sheer bad luck such as fraud and layoff due to unforeseen business slack, hitherto financially secure people are thrown into poverty.

Many sources of poverty are individual-specific. Some are self-inflicted. Others are beyond the individual's control but still individual-specific in that they reflect personal crises to the affected individuals. In contrast to this micro type, a crisis may victimize a

*The paper was presented at the Workshop on the APEC Social Safety Net Capacity Building sponsored by Korea Institute for Health and Social Affairs, March 23, 2005. The author appreciates comments made by an anonymous referee.

large proportion of the population at the same time. Economic recession can cause a macro crisis, which creates a sudden poverty problem for many people simultaneously.

How does the globalization affect poverty, especially the macro type? Globalization facilitates enormous exchanges of goods, services, and capital as well as people across the national border. Ever-decreasing cost of cross-country information transmittal expands the markets to provide tremendous opportunities for international commerce and economic prosperity to all the trading countries including the APEC members. Globalization enriches the peoples of different nations in general as they trade voluntarily each other for mutual gains. It has been shown that globalization improves all the major indicators of human well-being such as life expectancy, infant mortality, literacy, access to safe water, and daily food supply in the developing countries. Globalization benefits the poor countries, providing economic development and access to technologies developed by the rich countries.¹ According to the cross-country and individual case analysis of Dollar and Kraay (2004), globalization leads to faster growth and poverty reduction in poor countries.

Globalization does not root out poverty though. It may shake down the status quo of domestic firms and industries, exposing them to foreign competition. With rapidly shifting comparative advantages, frequently seen will be the extinction of firms and industries, which do not produce better and cheaper than foreign rivals. So will the accompanying temporary layoffs of workers, declines of the business districts housing the traditional industries, and other transient adjustment problems. The advent of fuller globalization, despite its general welfare enhancement, may add a new dimension to poverty occurrence. It could trigger micro crises such as financial ruins of the individuals associated with failed businesses and shifting industries due to intense international competition. Or the crisis could be on a macro scale as witnessed during the Asian currency crisis of the late 1990s. The promises of the global era do not lessen the urgency of coping with the poverty problem of the society.

This paper introduces the performance of the social safety net measures of the United States in dealing with poverty. It focuses on the effectiveness of the welfare reforms of 1996. Based on the US experiences, we purport to draw policy lessons universal to any society coping with poverty.

2. POVERTY AND WELFARE PROGRAMS IN THE UNITED STATES

The United States, the most powerful nation and one of the richest in the world, is not without the misery of abject poverty among its citizens. In the shadow of the shining skyscrapers of the modern US cities lurk dilapidated districts of destitute people infested with drugs, crimes, and despair. An out-of-town driver who makes a wrong exit turn in

¹ See Goklany (2002) for relation between globalization and well-being.

New York City Highways can glimpse the vast regions of slums and their ugliness. Who are the poor in this affluent country?

2.1. The Poor in the US

The US government reports the poverty threshold every year using the poverty index. The index is based on money income and excludes non-cash benefits such as food stamps, Medicaid, and public housing. The index reflects the Consumer Price Index and different consumption requirements of families of different size and composition. For example, the poverty threshold for a four-person family is \$18,392 in 2002. (Table 2-1.) While it is controversial how one defines the precise poverty threshold, the threshold is undeniably useful in understanding who the poor are.

Table 2-1. Weighted Average Poverty Thresholds by Size of Unit: 1980 to 2002
(in dollars)

Size of Family Unit	1980*	1990	1995	1997	1998	1999	2000	2001	2002
One Person (Unrelated Individual)	4,190	6,652	7,763	8,183	8,316	8,501	8,794	9,044	9,183
Under 65 Years	4,290	6,800	7,929	8,350	8,480	8,667	8,959	9,214	9,359
65 Years Old and Over	3,949	6,268	7,309	7,698	7,818	7,990	8,259	8,494	8,628
Two Person	5,363	8,509	9,933	10,473	10,634	10,869	11,239	11,559	11,756
Householder Under 65 Years	5,537	8,794	10,259	10,805	10,972	11,214	11,590	11,920	12,110
Householder 65 Years and Over	4,983	7,905	9,219	9,712	9,862	10,075	10,419	10,715	10,885
Three Person	6,565	10,419	12,158	12,802	13,003	13,290	13,738	14,219	14,348
Four Person	8,414	13,359	15,569	16,400	16,660	17,029	17,603	18,104	18,392
Five Person	9,966	15,792	18,408	19,380	19,680	20,127	20,819	21,411	21,744
Six Person	11,269	17,839	20,804	21,886	22,228	22,727	23,528	24,197	24,576
Seven Person	12,761	20,241	23,552	24,802	25,257	25,912	26,754	27,514	28,001
Eight Person	14,199	22,582	26,237	27,593	28,166	28,967	29,701	30,546	30,907
Nine Person	16,896	26,848	31,280	32,566	33,339	34,417	35,060	36,058	37,062

Note: * Poverty levels for nonfarm families.

Source: U.S. Census Bureau, Statistical Abstract of the United States: 2004-2005, No. 685.

Table 2-2 reveals the two most important characteristics of the persons whose income fall below the poverty threshold. First, the demographic group most severely affected by poverty is children. While the proportion of persons below poverty level among general population is 12.1% as of 2002, the proportion is 16.7% for persons under 18 years old. Second, the female poverty rate at 13.3% is much higher than the male rate, 10.9%. The high child poverty rate is alarming because of the long-term adverse effects: childhood poverty may hamper the children's physical growth and learning and hence their reaching financially self-sufficient adulthood. Child poverty leads to future adult poverty.

JOURNAL OF ECONOMIC DEVELOPMENT

Volume 33, Number 2, December 2008

Table 2-2. Persons Below Poverty Level by Selected Characteristics: 2002

(People as of March 2003 (34,570 represents 34,570,000))

(Based on Current Population Survey)

Characteristic	Number Below Poverty Level (1,000)					Percent Below Poverty Level				
	All Races*	White	Black	Asian	Hispanic**	All Races	White	Black	Asian	Hispanic
Total	34,570	23,466	8,602	1,161	8,555	12.1	10.2	24.1	10.1	21.8
Male	15,162	10,381	3,632	535	3,954	10.9	9.1	22.0	9.7	19.7
Female	19,408	13,085	4,969	626	4,601	13.3	11.2	26.0	10.4	24.1
Under 18 Years Old	12,133	7,549	3,645	315	3,782	16.7	13.6	32.3	11.7	28.6
18 to 24 Years Old	4,536	3,099	1,084	196	1,1014	16.5	14.4	28.0	16.8	21.1
25 to 34 Years Old	4,674	3,300	989	201	1,410	11.9	10.7	19.7	9.1	19.0
35 to 44 Years Old	4,087	2,778	944	199	1,016	9.3	7.8	17.4	10.1	17.2
45 to 54 Years Old	2,999	2,012	818	101	559	7.5	6.0	17.8	6.4	15.2
55 to 59 Years Old	1,302	994	233	38	169	8.4	7.5	15.7	7.1	14.2
60 to 64 Years Old	1,263	995	209	29	165	10.6	9.8	18.2	6.9	18.1
65 Years Old and Over	3,576	2,739	680	82	439	10.4	9.1	23.8	8.4	21.4
65 to 74 Years Old	1,696	1,224	387	43	247	9.4	7.9	23.3	6.9	20.2
75 Years Old and Over	1,880	1,515	292	39	192	11.7	10.5	24.4	10.9	23.1
Native	29,012	19,339	8,079	373	4,983	11.5	9.3	24.7	8.9	21.3
Foreign Born	5,558	4,127	522	788	3,572	16.6	18.6	17.4	10.7	22.6
Naturalized Citizen	1,285	848	151	248	602	10.0	11.1	12.6	6.9	15.3
Not a Citizen	4,273	3,279	371	540	2,970	20.7	22.5	20.6	14.4	25.1

Notes: * Includes other races not shown separately.** Persons of Hispanic origin may be of any race.

Source: U.S. Census Bureau, Statistical Abstract of the United States: 2004-2005, No. 686.

Among the characteristics of families below poverty level (Table 2-3) the most salient are the following. First the low education level of the householder is associated with a high incidence of poverty, which is as expected. While the percent of families below poverty level is 9.6% as of 2002 for the general population, the percent is 21.6% for the families of the householders with no high school diploma. Next, the type of family the worst inflicted with poverty is female householder with no husband present. The percent below poverty level is 26.5% for the female householder-no husband present family. This contrasts to the percent below poverty level being 5.3% and 12.1% for married couple family and the family of male household with no wife present, respectively.

Table 2-3. Families Below Poverty Level by Selected Characteristics: 2002

	Number Below Poverty Level (1,000)	Percent Below Poverty Level
Total	7,229	9.6
Type of Family:		
Married Couple	3,052	5.3
Female Householder, No Husband Present	3,613	26.5
Male Household, No Wife Present	564	12.1
Education of Householder:*		
No High School Diploma	2,255	21.6
High School Diploma, No College	2,181	10.0
Some College, less than Bachelor's Degree	1,273	6.6
Bachelor's Degree or More	535	2.6
Age of Householder:		
15 to 24 Years Old	933	27.7
25 to 34 Years Old	1,933	14.4
35 to 44 Years Old	1,828	9.8
45 to 54 Years Old	973	5.8
55 to 64 Years Old	743	6.6
65 Years Old and Over	766	6.5

Note: * Householder 25 years old and over.

Source: U.S. Census Bureau, Statistical Abstract of the United States: 2004-2005, Table No. 690.

From the high poverty rates of the female householder with no husband present family type and the 18 and under age group follows that poverty is widespread among the single-mother families. This reveals that to a large extent poverty in the US today relates to the crumbling of the traditional husband-wife family as the social institution.

2.2. The US Income Redistribution System

The US government welfare programs to deal with poverty fall under the rubric of income redistribution measures. Undoubtedly, the progressive taxation is also a powerful tool for income redistribution. Focusing on the government expenditure side, government enforces income redistribution through various government income transfer programs. These income redistribution measures are of two types.

One type is public assistance programs which are designed to help the poor, the so-called “welfare programs”. Among the government transfer programs shown in Table 2-4, the public assistance programs are food stamps, public assistance medical care (which consists of mostly Medicaid, medical assistance for the poor), temporary assistance to needy families (TANF) included in family assistance, and general state assistance to the poor in emergencies. These public assistance programs are means-tested to verify that the recipients qualify as the needy. The largest portion of public assistance goes to the needy families with children, because they tend to be poor as shown earlier. TANF provides monthly payments to needy families with children under age 19. The old AFDC (aid to families with dependent children) program, which provided cash assistance based on need, income, resources, and family size, has been replaced by TANF since 1996. Table 2-4 shows that family assistance declined from \$22.6 billion in 1995 (a year before the 1996 welfare reform) to \$19.7 billion in 2002, while other public assistance programs have increased over the period. Public assistance medical care payments show the biggest increase (from \$155 billion to \$258.7 billion) due to the expansion of Medicaid.

The other type of government income transfer programs is general income redistribution measures designed for the general public, not just the poor. Most of the transfer items listed in Table 2-4 other than public assistance programs are general income redistribution measures. As of 2002 the total transfer payments to individuals amount to \$1,220.9 billion. Of the general income redistribution programs, the largest sums are spent on retirement and disability insurance benefits (\$472.6 billion) and medical payments (\$526.3 billion). Among the specific programs, the costliest ones are social security retirement insurance (Old Age, Survivors, and Disability Insurance) and Medicare (medical insurance for the elderly), which amount to \$446.6 billion and \$263.8 billion, respectively.

The social security retirement benefits are progressive in income redistribution, favoring low-income workers relative to their social security tax payments. The benefits are not paid out of the amounts the beneficiaries have contributed toward retirement. That is, the social security insurance is not a defined contribution retirement plan. The US social security is a defined benefit retirement plan, under which a retiree receives a specific amount based on a complex formula. The benefits are drawn from a fund to which the current workers contribute in social security tax. That is, the current workers support the retirees.

With both the birth rate and the death rate declining, the number of current workers

who pay the social security tax toward the social security fund decreases. As a result, the ratio of the number of the social security beneficiaries to the number of workers paying payroll taxes (the dependency ratio) is in a continuous climb, from .29 in 1995 to .50 predicted in 2030. Hence, the social security fund is expected to experience a crunch in the not so distant future.² An equally dire fate is predicted of the Medicare program.³

3. WELFARE REFORM IN THE UNITED STATES IN 1996

Social welfare expenditures of the US, which include both public assistance and general redistribution payments, continued to increase decade after decade since the end of the World War II. Table 3-1 shows that these redistribution payments reached 21% of the total GDP by 1995.

Unlike private charities provided by families, communities and religious organizations, social welfare programs are bound to. It is because, with social welfare programs, either you spend someone else's money on yourself or you spend someone else's money on still another person. To be specific, as a recipient of cash payments from Social Security you spend someone else's (the current social security tax payers) money freely. You do not have an incentive to reduce the spending. As for public housing, the administering bureaucrats spend taxpayers' money for the residents. (Friedman (1979)) They lack the incentive to reduce the cost either. Rather, their self-interest leads them to expand the budgets so as to secure their jobs and to increase their power. Consequently, the efficiency of helping the poor is extremely low. Currently, in the US, it requires 7 tax dollars to deliver 1 additional dollar of public assistance to a poor person due to high administrative costs and wastes. (Frank (2003, p. 674))

As the burdens of the redistribution programs had been loaded on the taxpayers and the economy, the AFDC was especially noted for its abuses and ever-increasing costs. If the purpose of the AFDC were to put the poor families back to financial self-sufficiency, the program was an utter failure. According to Table 3-2 the number of families receiving the AFDC increased from 787,000 in 1960 to 4,056,584 in 1990 to the peak of 5,032,632 in 1994. Between 1990 and 1994, the welfare caseloads increased by a million families, an alarming rate. Seemingly the AFDC was encouraging more families into the welfare dependency instead of helping them recover financial independence. Rather than a temporary relief measure, the AFDC was often being used as a long-term source of income.

²For social security reform, see Gramlich (1996), Diamond (1996), and Hassett (2001).

³For health care reform, see Pauly (1994) and Steuerle (1994).

JOURNAL OF ECONOMIC DEVELOPMENT

Volume 33, Number 2, December 2008

Table 2-4. Government Transfer Payments to Individuals by Type: 1990 to 2002 (in millions of dollars)

	1990	1995	1998	1999	2000	2001	2002
Total	561,484	840,034	932,552	966,502	1,018,106	1,116,212	1,220,858
Retirement & Disability Insurance Benefit Payments	264,230	350,310	391,758	402,507	424,810	449,650	472,564
Old Age, Survivors & Disability Insurance	244,135	327,667	369,242	379,763	401,218	424,985	446,559
Railroad Retirement and Disability	7,221	8,028	8,225	8,203	8,265	8,412	8,698
Worker's Compensation Payments (Federal & State)	8,618	10,530	10,344	10,429	10,845	11,191	11,457
Other Government Disability Insurance & Retirement	4,256	4,085	3,947	4,112	4,482	5,026	5,850
Medical Payments	188,808	336,506	383,687	401,097	427,689	481,483	526,310
Medicare	107,638	179,147	205,839	209,110	219,612	243,372	263,750
Public Assistance Medical Care*	78,176	155,007	175,278	189,252	205,021	234,648	258,658
Military Medical Insurance	2,994	2,352	2,570	2,735	3,056	3,463	3,902
Income Maintenance Benefit Payments	63,481	100,443	101,102	104,777	106,616	110,047	121,884
Supplemental Security Income (SSI)	16,670	27,726	30,322	31,023	31,675	33,162	34,664
Family Assistance**	19,187	22,637	17,429	17,920	18,440	18,630	19,729
Food Stamps	14,741	22,447	16,462	15,473	14,896	15,998	18,642
Other Income Maintenance	12,883	27,633	36,889	40,361	41,605	42,257	48,849
Unemployment Insurance Benefit Payments.	18,208	21,838	19,879	20,756	19,913	31,352	52,939
State Unemployment Insurance Compensation	17,644	20,937	19,178	20,015	19,913	31,352	52,939
Unemployment Compensation for Federal Civilian Employees	215	339	235	207	226	246	327
Unemployment Compensation for Railroad Employees	89	62	61	65	81	98	96
Unemployment Compensation for Veterans.	144	320	210	201	182	217	325
Other Unemployment Compensation	116	180	195	268	278	282	287

WELFARE PROGRAMS FOR THE GLOBAL ERA

93

Veterans Benefit Payments	17,687	20,546	23,168	24,053	24,935	26,488	29,579
Veterans Pension and Disability	15,550	17,565	20,049	20,904	21,895	23,283	25,940
Veterans Readjustment	257	1,086	1,220	1,323	1,323	1,504	1,906
Veterans Life Insurance Benefits	1,868	1,884	1,891	1,817	1,707	1,691	1,722
Other Assistance to Veterans	12	11	8	9	10	10	11
Federal Education & Training Assistance Payments	7,300	9,007	11,189	11,367	10,985	13,130	13,844
Other Payments to Individuals	1,770	1,384	1,769	1,945	2,391	3,219	2,703

Notes: * Consists of medicaid and other medical vendor payments. ** Through 1995, consists of emergency assistance and aid to families with dependent children. Beginning with 1998, consists of benefits-generally known as temporary assistance for needy families-provided under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

Source: U.S. Census Bureau, Statistical Abstract of the United States: 2004-2005, Table No. 519.

Table 3-1. Social Welfare Expenditures Under Public Programs as Percent of GDP and Total Government Outlays: 1970 to 1995

Year	Total Expenditures (% of -)				Federal (% of -)				State and Local Government (% of -)			
	Total (bil. \$)	% change*	Total GDP	Total Govt. Outlays	Total (bil. \$)	% change*	Total GDP	Total Federal Outlays	Total (bil. \$)	% change*	Total GDP	Total State & Local Outlays
1970	146	14.6	14.8	46.5	77	13.2	7.8	40.0	68	16.3	6.9	57.9
1980	493	14.7	18.6	57.2	303	15.2	11.4	54.4	190	13.8	7.2	62.9
1985	732	8.0	18.4	54.4	451	7.1	11.3	48.7	281	9.3	7.1	68.8
1990	1,049	9.6	18.5	58.2	617	9.1	10.9	51.4	432	10.3	7.6	74.0
1992	1,267	9.2	20.6	63.7	750	10.8	12.2	57.4	517	7.0	8.4	77.6
1993	1,367	7.8	21.1	66.6	805	7.2	12.4	60.0	561	8.5	8.7	80.7
1994	1,463	5.1	21.0	64.5	853	6.1	12.5	57.4	583	3.7	8.5	80.4
1995	1,505	4.8	20.9	67.5	888	4.1	12.4	60.2	617	5.8	8.6	83.6

Note: * Percent change from immediate prior year.

Source: U.S. Census Bureau, Statistical Abstract of the United States: 1996, Table No. 572 and 2000, Table No. 599.

Furthermore, incidences of the AFDC frauds had been widespread. The public were alarmed by the increasing rate of illegitimate births associated with the AFDC as well. The Public Agenda Foundation's 1996 survey demonstrates the ills of the welfare programs. To how seriously you consider "Welfare encourages teen-agers to have kids out of wedlock," 64 % of the welfare recipients said they thought the problem was "very serious," which was even higher than the proportion of the general public (60 percent) giving the same response. Similarly a majority among the general public (57%) and a larger majority (62%) among the welfare recipients answered "very serious" to "The system undermines the work ethic and encourages people to be lazy." Likewise, 64 percent of the general public and 67 percent of welfare recipients answered "very serious" to "People cheat and commit fraud to get welfare benefits." According to an estimate by Mark Rosenzweig, 1 percent increase in cash welfare benefits was associated with 1.2 percent increase in illegitimate births among young poor women. (See Wattenberg (1996).)

Table 3-2. Cash Assistance for Needy Families* : Aid to Families with Dependent Children (AFDC) and Temporary Assistance for Needy Families (TANF)
 (Average Monthly Families and Recipients for Calendar Years 1936-2001)

Year	Families	Recipients
1936	147,000	534,000
1937	194,000	674,000
1938	258,000	895,000
1939	305,000	1,042,000
1940	349,000	1,182,000
1941	387,000	1,319,000
1942	387,000	1,317,000
1943	304,000	1,050,000
1944	260,000	910,000
1945	259,000	907,000
1946	312,000	1,112,000
1947	393,000	1,394,000
1948	449,000	1,595,000
1949	541,000	1,918,000
1950	644,000	2,205,000
1951	621,000	2,134,000
1952	583,000	2,022,000
1953	560,000	1,970,000
1954	580,000	2,076,000

1955	612,000	2,214,000
1956	611,000	2,239,000
1957	645,000	2,395,000
1958	724,000	2,719,000
1959	774,000	2,920,000
1960	787,000	3,005,000
1961	869,000	3,354,000
1962	931,000	3,676,000
1963	947,000	3,876,000
1964	992,000	4,118,000
1965	1,039,000	4,329,000
1966	1,088,000	4,513,000
1967	1,217,000	5,014,000
1968	1,410,000	5,705,000
1969	1,698,000	6,706,000
1970	2,208,000	8,466,000
1971	2,762,000	10,241,000
1972	3,049,000	10,947,000
1973	3,148,000	10,949,000
1974	3,230,000	10,864,000
1975	3,498,000	11,346,000
1976	3,579,000	11,304,000
1977	3,588,000	11,050,000
1978	3,522,000	10,570,000
1979	3,508,571	10,311,855
1980	3,712,337	10,772,347
1981	3,835,489	11,079,117
1982	3,541,525	10,358,302
1983	3,686,163	10,760,935
1984	3,713,929	10,830,529
1985	3,701,033	10,855,284
1986	3,763,252	11,037,797
1987	3,775,573	11,026,664
1988	3,748,580	10,914,679
1989	3,798,348	10,992,248
1990	4,056,584	11,694,712

1991	4,497,186	12,930,472
1992	4,829,094	13,773,319
1993	5,011,827	14,205,484
1994	5,032,632	14,160,920
1995	4,790,749	13,418,386
1996	4,434,160	12,320,970
1997	3,740,179	10,375,993
1998	3,050,335	8,347,136
1999	2,581,270	6,874,471
2000	2,214,800	5,776,849
2001	2,102,996	5,362,700

Note: * Prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), cash assistance for needy families was provided through Aid to Dependent Children (1936-1962), later called Aid to Families with Dependent Children (1962-1997).

Source: US Department of Health and Human Services, Administration for Children and Families available from "<http://www.acf.dhhs.gov/news/stats/3697.htm>" prepared by ACF 5/10/02.

With ever-rising welfare caseloads and rampant welfare frauds in the background, the US in the mid-1990s was building a public consensus to rein in the wastes and abuses of welfare programs. After winning control of Congress, the Republicans drafted the new welfare rules and then-President Bill Clinton signed it into a law so as to push welfare recipients to take jobs, i.e., to push them from welfare into workfare. This welfare reform law is the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).⁴ PRWORA replaced AFDC, AFDC administration, the Job Opportunities and Basic Skills Training (JOBS) program, and the Emergency Assistance (EA) program with a cash welfare block grant called the Temporary Assistance for Needy Families (TANF) program. The purposes of the PRWORA are:

A. To increase the flexibility of States in operating a program designed to (1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (4) encourage the formation and maintenance of two-parent families.

B. NO INDIVIDUAL ENTITLEMENT- This part shall not be interpreted to entitle

⁴For review of the US welfare reform see Blank (2002), Rossi (2003), and Besharov and Germanis (2003).

any individual or family to assistance under any State program funded under this part. (See Appendix 1 for the highlights of PRWORA.)

The main features of PRWORA are four-fold.

(i) *Time limit:* A lifetime limit of five years (60 months) was imposed on receipt of federally funded assistance including TANF.

(ii) *Decentralized welfare authority:* Federal entitlement to cash assistance is eliminated. States design their own cash public assistance programs for their own expenses and determine the families to support. States are eligible to the capped TANF block grants from the federal government.

States can use TANF funds in any way but they must support the statutory purposes of TANF: which are items A: (1)-(4) in the previous page. (<http://aspe.os.dhhs.gov/hsp/abbrev/afdc-tanf.htm>) As the states observe these conditions, additional features of PRWORA follow.

(iii) *Work requirements:* States required more than 50% of TANF families to work or participate in work preparation programs.

(iv) *Incentives to reduce out-of-wedlock births:* States are eligible for special federal bonuses for reducing non-marital births.

The Effects of the Welfare Reform

(i) *Caseload reduction:* As the welfare reform law became effective since 1996, the welfare caseloads had gone down dramatically. After the historic high in 1994, welfare caseloads have declined dramatically. The average number of families on the AFDC/TANF rolls was 2,102,996 in 2001 as opposed to 5,032,632 in 1994, registering a caseload reduction of about 3 million families or 58%.

Besides welfare caseload reduction the reform has brought about other positive effects. A testimony by Secretary of the Health and Human Services Thompson lists the following outcomes seen since creation of TANF (Thompson (2003)).

(ii) *Increased employment among single mothers:* Employment among single mothers has grown to unprecedented levels, and a new study, recently published in Science Magazine reported that, "In families...mothers' entry into employment was related to a significant increase in family income across every model specification."

(iii) *Child poverty reduction:* Child poverty rates are at or near historic lows. This is one of the most important outcomes we could have hoped to achieve-and TANF has been a stunning success. The overall child poverty rate has fallen from 20.5% in 1996 to 16.3% in 2001-a 20% decline. This is all the more remarkable as the nation was in a recession for most of 2001. Putting this into perspective, in all previous recessionary periods since the early 1960's, child poverty increased-on average 1.4 percentage points during a recessionary year, and never less than 1.0 percentage point in such a year. Yet, between 2000 and 2001 overall child poverty rates essentially remained unchanged, and

child poverty among African American and Hispanics both declined.

(iv) The rate of births to unwed mothers has stabilized.

(v) The share of young children living with married mothers ended a decades-long decline in 1996.

(vi) The share of unmarried women with a young child stopped growing and began to decline in mid-decade as well.

From the welfare caseload reduction figures, it is clear that welfare dependency has declined dramatically. A success in transition from welfare to workfare is also observed from the increase in single mothers' employment. Now the question is whether this achievement was caused by the welfare reform of 1996 or by other factors. Would it be possible that the booming economy of the late 1990s, not the welfare reform, caused the reduction in welfare dependency?

Various empirical studies assessing the causes of the welfare roll reduction found that factors other than welfare reform have also contributed to the phenomenal reduction in welfare rolls. (Besharov and Germanis (2003), Blank (2002)) The studies can be summarized as follows. As for welfare caseload reduction for the period 1994-1999, the strong economy was the most important factor, which explains 35 to 45% of the reduction. Next in importance was welfare reform accounting for 25 to 35%. The massive increase in aid to the working poor accounts for 20% to 30% reduction, followed by erosion of benefits for 5% to 10% and minimum wage increases for 0% to 5%. (Besharov and Germanis (2003))

It is reasonable to argue that the welfare reform is not the sole cause of the welfare roll reduction. Econometric estimates tell that the strong economy had a 10 percent points larger impact on the caseload reduction than the welfare reform. But these estimates should not be interpreted to conclude that the welfare reform was the secondary cause for the welfare dependency reduction. This is because there were many periods of strong economy during several decades leading to the reform of 1996. But none of those boom periods accompanied welfare roll reduction of the present magnitude.

A strong economy provides more and better employment opportunities and should help the non-working poor to find jobs and stay in jobs, if they are willing. How would a strong economy induce those on the welfare roll to work, if public assistance programs continue to reward welfare dependency better than work? Once the perverse incentive for dependency is imbedded in the welfare programs, an economic recovery would not effectively move the non-working poor from welfare-dependency to work. It is not a strong economy, but a genuine welfare reform, that enables those bent on welfare dependency to take up job opportunities the improved economy offers. Therefore the welfare reform of 1996 is justified as the main cause of welfare roll reduction since that time, while other factors are acknowledged for having helped the reform to succeed.

4. LESSONS OF THE US WELFARE REFORM EXPERIENCE

During the 20th century numerous nations of the world tried to put into practice the socialist ideal of state-provided welfare to the people from the cradle to the grave. The collapse of the Union of Soviet Socialist Republics and its socialist satellites witnesses that the socialist ideal is a daydream. The Western European version of socialism, the welfare state, pursues the same socialist ideal, although it uses income redistribution as the means instead of the wholesale forfeit of private property. Nevertheless it does not appear that the welfare state avoids following the fate of its Stalinist brother. Wastes of the social insurances in the Western Europe such as high unemployment rates, abysmal health care services, and abuses of state subsidies are public knowledge.

The social welfare system of the United States, a relatively stingy version of the welfare state, has not been regarded highly by other Westernized countries until lately. Since 1990s, however, many welfare states have been looking up to the US and its successful Personal Responsibility and Work Opportunity Reconciliation Act of 1996 for a welfare reform model, as the ills of welfare socialism accumulated over time severely burdened their economies. In 1996, Canada provided greater authority to provinces for social assistance programs, following the increased state authority in public assistance programs of the US. In 1999, Great Britain introduced the Working Families Tax Credit, a tax credit for low-income working families as in the US earned income tax credit program to encourage work. Germany adopted the time limits on public assistance receipt similar to those in the US. (Blank (2002))

Regarding how best to provide the social safety net prior to a crisis occurring on a personal level or on a macroeconomic scale, the welfare reform experiences of the US offer important lessons:

(i) Limit public assistance to abject poverty out of reach of private assistance.

Assisting the less affluent with public fund sounds a noble deed, but it often impairs the long-term financial self-sufficiency of the assisted. To help the people suffering abject poverty, the immediate family or extended family should be the first in the line of responsibility and the public assistance program the last. The reason is the inevitable waste and the ineffectiveness of involved in assisting other people with money from still other people as described in Section 3 and confirmed by the failures of welfare programs of the U.S. (prior to the reform) and the Western Europe.

If the family cannot assume the duty, the voluntary cares by the communities or religious organizations should be next in the line. A rotating savings and credit association is a good example of private initiatives to help the poor.⁵ If these private

⁵ The members of a rotating savings and credit association contribute into a pot which is given to one member. The practice is repeated over time so that each member has a turn. See Meir and Rauch (2005, p.323), and Light and Pham (1998).

initiatives all fail, the government may take up the role of helping the poor as the last resort. The public assistance should be limited to abject poverty which private assistance fails to reach.

(ii) Decentralize public assistance programs

When government should help the poor, the authority to design public assistance programs and to raise the fund and to deliver assistance should be left with the smallest local government unit such as village and in South Korea for example with no higher unit than Tong and preferably Bahn. Naturally, the mini local government in charge of its own poverty problem should be granted the authority to raise the poverty fund among its residents. The central government may help toward a portion of the fund as block grants in emergencies when the number of the poor swelled too rapidly and too much for the local government to finance the fund in time.

(iii) Time Limit

When the local government delivers assistance to the poor, it should impose a limit on the total number of months each recipient can receive the public assistance in his/her lifetime. The limit of sixty months as practiced in the US seems a reasonable number.

(iv) Importance of the whole family

It was shown earlier that the family type, which is the most susceptible to poverty, is the single-parent family, especially the one headed by a single woman. A government run program to alleviate her poverty may run the unintended risk of impairing the wholeness of the two-parent family. As in the pre-1996 AFDC program of the US, a public program to assist poor individuals tends to harm the financial integrity of the publicly assisted poor by weakening their attachment to the whole family, the very foundation of self-sufficiency. Public assistance programs also encourage out-of-wedlock births, which lead to poverty among the children and to their becoming the next generation dependents of public assistance. It is noteworthy that the prime victims of poverty are children. A social safety net should not disadvantage the two-parent family. It should encourage marriage and staying in marriage.

Thanks to the women's rights movement the importance of mothers' role in childrearing has come to be better understood. But that should not diminish the role of fathers in disciplining and preparing the children to get ready for self-sufficient adulthood. While mothers' warmth and protectiveness provides security for children, fathers can help children to learn the skills to live the life's hardships.

Besides the immediate family, the extended family system should be protected and further promoted. The family living with grandparents under the same roof or close relationship with uncles, aunts, cousins, and nephews should be encouraged. One serious impediment in putting welfare mothers back to work is lack of childcare. Public nurseries and childcare assistance are often touted as the solution. But it is not, since they share the pitfalls of the government provided welfare programs: exorbitant costs, wastes, and abuses. The encouragement of the extended family also provides a sound alternative to the enormously costly and inefficient government provided elderly care.

(v) *Depend on private charities*

As witnessed in many countries, the social welfare programs are ineffective and wasteful ways to help the poor. The next best mediums to help the poor are private charities after their families, communities, and religious organizations. The involvement of the government in encouraging private charities would lead to unintended negative effects as government meddling in private affairs usually does. What the government needs to do is to respect the activities of private charity organizations and not to interfere with or discriminate against such activities.

5. CONCLUDING REMARKS

The socialist states of the 20th century failed to deliver the promise of equal prosperity and dignity to the mass. From the primitive Stalinist states of the USSR, China, and North Korea to the welfare states of the present Western Europe, the socialist experiments ended up with economic collapse or stagnation and oftentimes the moral degradation and loss of financial independence among the recipients of the public doles.

Poverty has been present throughout the history of men. It is not a problem to be eliminated by writing several government welfare programs into the law. It is an ever-ongoing problem, which the government, especially the central government, is not well qualified to solve. The best institutions to help the poor are first of all the immediate and extended families, and then the nearest communities, religious organizations, and private charities.

While the mini local government could devise a useful social safety net to assist its residents fallen in dire poverty, that should be the last resort after all the private initiative fail. The primary responsibility for assistance should be left with families and other private institutions. That is a simple lesson drawn from the history. The modern states have taken close to the whole 100 years of the 20th century to realize the simple truth.

Appendix. Highlights of Welfare Reform Act of 1996

H.R.3734: Personal Responsibility and Work Opportunity Reconciliation Act of 1996

SEC. 101. FINDINGS

The Congress makes the following findings:

1. Marriage is the foundation of a successful society.
2. Marriage is an essential institution of a successful society which promotes the interests of children.
3. Promotion of responsible fatherhood and motherhood is integral to successful child

rearing and the well-being of children.

4. In 1992, only 54 percent of single-parent families with children had a child support order established and, of that 54 percent, only about one-half received the full amount due. Of the cases enforced through the public child support enforcement system, only 18 percent of the caseload has a collection.

5. The number of individuals receiving aid to families with dependent children (in this section referred to as 'AFDC') has more than tripled since 1965. More than two-thirds of these recipients are children. Eighty-nine percent of children receiving AFDC benefits now live in homes in which no father is present.

5-1. (a) The average monthly number of children receiving AFDC benefits-(I) was 3,300,000 in 1965; (II) was 6,200,000 in 1970; (III) was 7,400,000 in 1980; and (IV) was 9,300,000 in 1992.

(b) While the number of children receiving AFDC benefits increased nearly threefold between 1965 and 1992, the total number of children in the United States aged 0 to 18 has declined by 5.5 percent.

5-2. The Department of Health and Human Services has estimated that 12,000,000 children will receive AFDC benefits within 10 years.

5-3. The increase in the number of children receiving public assistance is closely related to the increase in births to unmarried women. Between 1970 and 1991, the percentage of live births to unmarried women increased nearly threefold, from 10.7 percent to 29.5 percent.

6. The increase of out-of-wedlock pregnancies and births is well documented as follows:

6-1. It is estimated that the rate of nonmarital teen pregnancy rose 23 percent from 54 pregnancies per 1,000 unmarried teenagers in 1976 to 66.7 pregnancies in 1991. The overall rate of nonmarital pregnancy rose 14 percent from 90.8 pregnancies per 1,000 unmarried women in 1980 to 103 in both 1991 and 1992. In contrast, the overall pregnancy rate for married couples decreased 7.3 percent between 1980 and 1991, from 126.9 pregnancies per 1,000 married women in 1980 to 117.6 pregnancies in 1991.

6-2. The total of all out-of-wedlock births between 1970 and 1991 has risen from 10.7 percent to 29.5 percent and if the current trend continues, 50 percent of all births by the year 2015 will be out-of-wedlock.

7. An effective strategy to combat teenage pregnancy must address the issue of male responsibility, including statutory rape culpability and prevention. The increase of teenage pregnancies among the youngest girls is particularly severe and is linked to predatory sexual practices by men who are significantly older.

7-1. It is estimated that in the late 1980's, the rate for girls age 14 and under giving birth increased 26 percent.

7-2. Data indicates that at least half of the children born to teenage mothers are fathered by adult men. Available data suggests that almost 70 percent of births to teenage girls are fathered by men over age 20.

7-3. Surveys of teen mothers have revealed that a majority of such mothers have

histories of sexual and physical abuse, primarily with older adult men.

8. The negative consequences of an out-of-wedlock birth on the mother, the child, the family, and society are well documented as follows:

8-1. Young women 17 and under who give birth outside of marriage are more likely to go on public assistance and to spend more years on welfare once enrolled. These combined effects of 'younger and longer' increase total AFDC costs per household by 25 percent to 30 percent for 17-year-olds.

8-2. Children born out-of-wedlock have a substantially higher risk of being born at a very low or moderately low birth weight.

8-3. Children born out-of-wedlock are more likely to experience low verbal cognitive attainment, as well as more child abuse, and neglect.

8-4. Children born out-of-wedlock were more likely to have lower cognitive scores, lower educational aspirations, and a greater likelihood of becoming teenage parents themselves.

8-5. Being born out-of-wedlock significantly reduces the chances of the child growing up to have an intact marriage.

8-6. Children born out-of-wedlock are 3 times more likely to be on welfare when they grow up.

9. Currently 35 percent of children in single-parent homes were born out-of-wedlock, nearly the same percentage as that of children in single-parent homes whose parents are divorced (37 percent). While many parents find themselves, through divorce or tragic circumstances beyond their control, facing the difficult task of raising children alone, nevertheless, the negative consequences of raising children in single-parent homes are well documented as follows:

9-1. Only 9 percent of married-couple families with children under 18 years of age have income below the national poverty level. In contrast, 46 percent of female-headed households with children under 18 years of age are below the national poverty level.

9-2. Among single-parent families, nearly 1/2 of the mothers who never married received AFDC while only 1/5 of divorced mothers received AFDC.

9-3. Children born into families receiving welfare assistance are 3 times more likely to be on welfare when they reach adulthood than children not born into families receiving welfare.

9-4. Mothers under 20 years of age are at the greatest risk of bearing low birth weight babies.

9-5. The younger the single-parent mother, the less likely she is to finish high school.

9-6. Young women who have children before finishing high school are more likely to receive welfare assistance for a longer period of time.

9-7. Between 1985 and 1990, the public cost of births to teenage mothers under the aid to families with dependent children program, the food stamp program, and the Medicaid program has been estimated at \$120,000,000,000.

9-8. The absence of a father in the life of a child has a negative effect on school performance and peer adjustment.

9-9. Children of teenage single parents have lower cognitive scores, lower educational aspirations, and a greater likelihood of becoming teenage parents themselves.

9-10. Children of single-parent homes are 3 times more likely to fail and repeat a year in grade school than are children from intact 2-parent families.

9-11. Children from single-parent homes are almost 4 times more likely to be expelled or suspended from school.

9-12. Neighborhoods with larger percentages of youth aged 12 through 20 and areas with higher percentages of single-parent households have higher rates of violent crime.

9-13. Of those youth held for criminal offenses within the State juvenile justice system, only 29.8 percent lived primarily in a home with both parents. In contrast to these incarcerated youth, 73.9 percent of the 62,800,000 children in the Nation's resident population were living with both parents.

10. Therefore, in light of this demonstration of the crisis in our Nation, it is the sense of the Congress that prevention of out-of-wedlock pregnancy and reduction in out-of-wedlock birth are very important Government interests.

SEC. 401. PURPOSE

1. IN GENERAL-The purpose of this part is to increase the flexibility of States in operating a program designed to-

1-1. provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

1-2. end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

1-3. prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

1-4. encourage the formation and maintenance of two-parent families.

2. NO INDIVIDUAL ENTITLEMENT-This part shall not be interpreted to entitle any individual or family to assistance under any State program funded under this part.

SEC. 402. ELIGIBLE STATES; STATE PLAN

1. OUTLINE OF FAMILY ASSISTANCE PROGRAM-

1-1. GENERAL PROVISIONS-A written document that outlines how the State intends to do the following:

(a) Conduct a program, designed to serve all political subdivisions in the State (not necessarily in a uniform manner), that provides assistance to needy families with (or expecting) children and provides parents with job preparation, work, and support services to enable them to leave the program and become self-sufficient.

(b) Require a parent or caretaker receiving assistance under the program to engage in work (as defined by the State) once the State determines the parent or caretaker is ready to engage in work, or once the parent or caretaker has received assistance under the program for 24 months (whether or not consecutive), whichever is earlier.

(c) Ensure that parents and caretakers receiving assistance under the program engage in work activities.

(d) Establish goals and take action to prevent and reduce the incidence of out-of-wedlock pregnancies, with special emphasis on teenage pregnancies, and establish numerical goals for reducing the illegitimacy ratio of the State. . . ., for calendar years 1996 through 2005.

Source: <http://www.puaf.umd.edu/courses/puaf650/handouts-Responsibility-Welfare%20Reform%20Act.htm>

REFERENCES

- Besharov, Douglas J., and Peter Germanis (2003), "Welfare Reform and the Caseload Decline," in Douglas J. Besharov ed., *Family and Child Well-Being after Welfare Reform*, New Brunswick: Transaction Publishers, 35-66.
- Blank, Rebecca M. (2002), "Evaluating Welfare Reform in the United States," *Journal of Economic Literature*, XL, 1105-1166.
- Diamond, Peter A. (1996), "Proposals to Restructure Social Security," *Journal of Economic Perspectives*, 10(3), 67-88.
- Dollar, David, and Aart Kraay (2004), "Trade, Growth, and Poverty," *The Economic Journal*, 114, F22-F49.
- Frank, Robert (2003), *Microeconomics and Behavior*, New York: McGraw-Hill/Irwin.
- Friedman, Milton, and Rose Friedman (1979), *Free to Choose: a Personal Statement*, New York: Harcourt Brace.
- Goklany, Indur M. (2002), "The Globalization of Human Well-being," *Policy Analysis*, 447, Cato Institute.
- Gramlich, Edward M. (1996), "Different Approaches for Dealing with Social Security," *Journal of Economic Perspectives*, 10(3), 55-66.
- Hassett, Kevin A. (2001), *Social Security Reform Can't Wait*, American Enterprise Institute for Public Policy Research.
- Meier, Gerald M., and James E. Rauch (2005), *Leading Issues in Economic Development*, New York: Oxford University Press.
- Pauly, Mark V. (1994), *An Analysis of Medical Savings Accounts: Do Two Wrongs Make a Right?* American Enterprise Institute for Public Policy Research.
- Rossi, Peter H. (2003), "Assessing Welfare Reform's Impact," in Douglas J. Besharov ed., *Family and Child Well-Being after Welfare Reform*, New Brunswick: Transaction Publishers, 67-88.
- Steuerle, C. Eugene (1994), *Economic Effects of Health Reform*, American Enterprise Institute for Public Policy Research.
- Thompson, Tommy G. (2003), "Testimony Before the Committee on Finance-United States Senate: Statement by Secretary, Department of Health and Human Services on

Welfare Reform: Building on Success, March 12, 2003," <http://www.dhhs.gov/asl/testify/t030312.html>.

U.S. Census Bureau, *Statistical Abstract of the United States*, various issues.

US Department of Health and Human Services, *Administration for Children and Families*, available from <http://www.acf.dhhs.gov/news/stats/3697.htm>.

Wattenberg, Ben J. (1996), "Welfare As Seen by Those Who Know," *On the Issues*, American Enterprise Institute for Public Policy Research.

Mailing Address: Department of Economics, State University of New York at Binghamton, Binghamton, NY 13902-6000, USA. Tel: 607-777-2987. Fax: 607-777-2681. E-mail: yoon@binghamton.edu.

Manuscript received April 2008; final revision received November 2008.