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WELFARE HARMS ITS OSTENSIBLE BENEFICIARIES

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ABSTRACT. The welfare program is a highly contentious issue in political economy. Proponents claim it is the last best hope for the poor; a safety net, ensuring their economic welfare has a built-in floor supporting it. Opponents maintain it saps initiative, reduces incentives and is a snare and a delusion for the poor, who are, paradoxically, *harmed* by it. The present paper defends the latter position. The method we pursue in this paper is to examine the welfare system not merely in terms of its short run and superficial benefits: putting more money at the disposal of the poor. We also consider its long-term and very deleterious effects. Our major finding is expressed in the title of this paper: "Welfare Harms Its Ostensible Beneficiaries." This system has not broken up the families of the poor, and the black community. Rather, it has prevented it from forming in the first place.

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1. Introduction

Welfare: a government program for poor people that helps pay for their food, housing, medical costs, etc. How can welfare be problematic[1] if by definition it is meant to help the poverty stricken? The negative effects of welfare are experienced on a daily basis across the United States. Many citizens lacking in-depth knowledge are quick to come to the conclusion that our welfare system is not working efficiently due to the way it is currently implemented. In our view, in contrast, the flaws go deeper than that. The problems arise because these welfare state programs exist at all. What is called for, then, is not band-aid and bubble gum alterations at the margin; rather, extirpation, root and branch. Why is it important to examine and reexamine the welfare system? This is because it has very negative effects on the poor, on blacks, and especially on the black poor. They are the "least, last and lost" amongst us, and all men of good will wish to uplift those at the bottom end of the income and wealth pyramid. The welfare system, paradoxically, does the very opposite, as we demonstrate in this paper. In section 2 we discuss the program and its many and serious drawbacks. Section 3 is given over to a historical, and critical, analysis. We conclude in section 4.

2. Critique

We all want to help our fellow man; the question is, are these programs a benefit or a cost to the recipients? By exploring different aspects of the welfare system; food stamps, Medicaid, section 8 housing, etc., a shallow analysis might indicate that these programs are merely poorly run. A more thorough examination will reveal that they more harm than good. Between straining the already stressed American budget and the creation of lazy Americans used to government assistance, the drawbacks of the welfare system become apparent.

The welfare state is problematic for our country, paradoxically, because it indeed helps people.[2] These welfare state programs target low income families for the most part who are experiencing difficult times and need assistance to get by at a basic living standard. This positive,[3] very quickly turns to a negative, for the way the system is set up is that it focuses on single mothers with young children. But this discourages marriage between poorer individuals for fear of losing the welfare benefits for their children. In line with the deterrence of marriage, the programs are beneficial enough that many people are discouraged from working at all. The jobs that exist for people hovering around the poverty line are not particularly desirable ones; they require hard work for minimal pay. There is little incentive to return to the productive world of an American citizen if there is not a significant benefit. For example, suppose welfare will pay a person $200 per week, and a low level job, $220. Then, the individual is in effect paid only $20 on a weekly basis, for onerous employment.[4]

The existence of the American welfare state in particular and the way it is set up teaches those who are involved in it that the perpetual cycle of abuse of power and lack of motivation to succeed is acceptable. In its current model, the welfare system encourages lazy behavior because there is no longer a stigmatization of the program that encourages people to strive for a better life for themselves and their families. The structure is flawed; without the negative stigma, there is no feeling of shame for being poor and not working. American welfare is set up in a manner that allows those living on it to get away with working minimally, if at all, because they do not want to lose their poverty privileges and are incentivized in this direction. “The welfare state requires boundaries because it establishes a principle of distributive justice that departs from the distributive principles of the free market. The principle that – imperfectly – governs distribution in the welfare state is that of human need” (Freeman, 1986: 52).

Food stamps are any of the coupons sold or given under a federal program to eligible needy persons and redeemable for food at designated grocery stores or markets (Dictionary.com). Another similar program that exists in certain states is Supplemental Nutrition Assistance Program (SNAP).[5] This provides monthly benefits that help low-income households, especially those with children, purchase the food they need to maintain a healthy standard of living. SNAP and other similar food assistance programs are often abused. The way the current system is set up, there are foods that are not what an individual would consider to be “healthy” or “necessary” in a fixed income diet. But those in the program are buying “luxury” goods with their food stamps. These are items that an average person with a small, fixed income may find to be too extravagant to purchase with their own money. As undermining of the program as those purchases may be, there is yet a worse option, black market food stamps. Citizens eligible and receiving basic food aid from the government often still feel the negative connotations associated with buying groceries labeled as SNAP eligible. This causes them to want to find alternatives with less stigmatization. They do not have many options as far as payment for food goes, so they end up on the black market with food stamps. These transactions are illegal, but rewarding for those who use food stamps or SNAP equivalents. They are repurposed or resold elsewhere within the country. They are not officially recorded anywhere by legal governing bodies. If there were less negativity surrounding the assistance of food stamps and they were more socially acceptable as a way of payment, a black market for them would not exist. “The decision to not participate in a welfare program despite a positive potential benefit can be successfully modeled as a utility-maximizing decision resulting from stigma. However, stigma appears to arise mainly from the act of welfare recipiency per se, and not to vary with the amount of the benefit once on welfare. It was also found that the probability of participating varies with the size of the potential benefit" (Moffitt, 1983: 1033–1034).

This market exists because people feel shame for their situation.

Another program for those living in a welfare state is section 8 housing. It was created to keep those struggling to make ends meet in better parts of town to allow them more opportunities at better jobs and living in a more centrally located area with better schools and afterschool programs for the children. This helps in that the parents would not have to worry about their child being home alone after school when they were still working. "Lack of adequate housing has perhaps been the single most persistent and controversial problem related to the issue of social services…." (Freeman, 1986: 58). As the pattern continues, those who are living below the poverty line and have been down on their luck for some time now are able to benefit from these social assistance programs. These housing programs are often set up in certain sections of neighborhoods or apartment complexes and are very strict on the maximum wage people applying for section 8 can earn.[6] Aside from taking potential housing options in nice neighborhoods, having certain parts of a neighborhood developed as section 8 can hurt housing prices in the rest of the area due to the stigmatism associated with low income housing and the renters it tends to bring. The stigma associated with renters in general is based in the fact that they do not own the property and will not be responsible for the condition it is left in when they leave. This rings particularly true with low-income renters; while this is certainly a generalization of all renters, the negative connotations associated with section 8 housing[7] and the people who inhabit them leads to the devaluation of the apartment complex or neighborhood.

There is a difficulty with section 8 that is not well understood: it is akin to giving luxury food to the poor, something specifically disavowed by government; only in this case, it is occupying a luxury location. Under the free enterprise system, the poor are not likely to own a Rolls Royce automobile, nor travel first class. But living in the middle of Manhattan, for example, is akin to such occurrences. Rents and housing prices are stratospheric, there, because they are in great demand. Without government misallocation, poor people would be forced to commute into that borough from Queens, Staten Island, or perhaps New Jersey. Such a situation would enhance economic well-being because the rich have a higher alternative cost of time than do the poor. Dishwashers and busboys do not live in Aspen, Colorado. The land values are much too high in that locale to allow any such thing. Land near the slopes is pretty much reserved by the marketplace for wealthy skiers and their ilk. If there were a section 8 in operation there, matters would become twisted around: the poverty stricken would live near where the "action" was taking place, and those who enjoyed the greatest value from these amenities,[8] would be forced to occupy the tail end of the queue.

According to one commentator, welfare is harmful especially in the long run, "The welfare state asserts the distributive principle of mutual aid according to need against the distributive principle of the marketplace. In this sense, the welfare state represents an imperfect but important structural transformation of capitalism" (Freeman, 1986: 62).

If it is only temporary, then the effects will not be as noticeable. The acute problem lies within repeat users of the welfare system or people who get used to living in social assistance programs and they have no desire to depart. After a while these chronic recipients begin to expect things rather than be grateful for aid when they cannot help themselves. The welfare system is flawed, as are most social programs, but due to its size and complexity the system is more broken than most. There are both federal and state governing bodies which administer the different welfare and social assistance programs. One might believe they could help organize the programs, but it actually causes a bigger disconnect due to increased bureaucracy (Mises, 1969). There is also a huge discrepancy across state lines; similar to different taxes, the states have their own jurisdiction over application to certain social assistance programs.

Although the negative stigma associated with welfare is a deterrent for some people and reason enough to get out of the program once they are back on their feet, it does not stop everybody. There are not many checks and balances within the system. Some states have strict residency requirements and regular drug testing. Others require proof of actively search for employment. On the other hand there are some jurisdictions with exceedingly loose criteria. "Many of these new state programs involved major changes in administrative procedures, along with new programs and new program parameters" (Schoeni, 2000: 27). Regardless of how strict the regulations are in any given state, the federal programs do not require anything except living below the poverty line to gain access. None of the federal programs require drug testing or proof of search for employment.

This may not seem like a big problem, but it is. Welfare programs are a drain on hard working taxpayers and the economy as a whole. "The complexity of the dynamic model makes it difficult to envision the effects of the business cycle or welfare reforms by direct observation of the parameter estimates. For instance, short-run changes in caseloads associated with welfare reforms or the macro-economy also independently feed into future levels of welfare caseloads, suggesting a complicated dynamic structure to the caseload series" (Ziliak, 1997: 581).

While the number of people collecting from one welfare program or another changes over time, the taxpayers are still paying into a program that does not benefit them, in the long or short run. The money a citizen pays in taxes is assumed to come back one way or another through the government to help the citizen, whether it be roads or a beautification project, but not many tax payers would voluntarily sign up to have their money given to an able-bodied person with no children to support who was not working for an extended period of time. On top of that, who apart from the very few would want to leave a program where they are being taken care of while doing nothing?

3. History

Throughout history, man has been confronted with poverty and the daunting task of eliminating, or at least minimizing it. Many solutions have been proposed – both as private initiatives from charities and religious institutions as well as government mandates. In the United States, much debate has centered around the so-called War on Poverty, a term coined during President Lynden Johnson's crusade to eradicate destitution across the nation. However, the federal government's initiatives to be pro-active in this regard stretch back to the country's foundation. Time and again government programs, particularly those constructed under the administrations of LBJ and FDR, are not effective at striking at the root of poverty and in fact, sow the seeds to continue the unfortunate cycle.

Beginning with the original thirteen colonies under British rule, there were what were then called the "poor laws." These laws served to provide for those who could not take care of themselves. The Old Poor Law of 1601 in England and Wales started the modern switch from family and private charity to poverty relief through compulsory taxation, mostly land taxes. This law came around due to the breakdown of the Church's influence after the Middle Ages. The administration of these laws was initially delegated to the parishes individually. Eventually, however, with a lack of clear objectives and oversight, the task resulted in a more centralized method. This led to the creation of workhouses around 1631 through the creation of the Poor Law Unions (Higginbotham). Workhouses were essentially places for those with no relatives or means of support could live and work. They were typically funded by the government, which often forbade private charity. Although life in the workhouses was rough due to intense manual labor such as crushing stones for fertilizer, one of the greatest advantages was free healthcare and education for the children of the workers.

The poor were categorized into three groups: those who were able bodied but chose not to work, those who were able bodied and wanted a job but were unable to function in most activities, and a mix of the sick and elderly homeless (Fraser, 2009). Although workhouses continued to exist until the 1930s in England due to their abolition and the aggrandizement of the welfare state, this setting provided the backdrop for the same task of curing poverty in the United States.

On the other side of the Atlantic, most Americans might think that poverty only came to be recognized on the national scene in the twentieth century. Much like the English, Americans since the country's founding initially delegated the task of helping the impoverished to the local level. There was also a distinction made between vagabonds, those who are able but refuse to work, and the truly destitute – "the deserving and the undeserving poor." Initially, those who were physically incapacitated and unable to support themselves were housed by nearby wealthy farmers which earned them a reputation of generosity and respect in the community. For the able bodied, the colonial states also had workhouses that reflected those of the English. Prior to the American Revolution, the local Anglican Church provided for those in need. After the Revolution, following the spirit of separation of church and state, poverty relief became a concern for local governments in addition to the private initiatives of the various churches.

The Founding Fathers weighed in on this issue. Thomas Jefferson, an advocate of compulsory early child public education, advocated minimal assisted living, while Benjamin Franklin, based on his experiences living in England in the 1760s, had this to say about state-provided relief: "I am for doing good to the poor, but I differ in opinion of the means. I think the best way of doing good to the poor is not making them easy in poverty, but leading or driving them out of it. In my youth I travelled much, and I observed in different countries that the more public provisions were made for the poor, the less they provided for themselves, and of course became poorer. And, on the contrary, the less was done for them, the more they did for themselves, and became richer" (Franklin, 1766).

Jefferson agreed and went further to not only promote eliminating primogeniture,[9] but also radically extending property rights, including to women, as a means of reducing poverty. He opposed the forced taking from those who used their abilities to become commercially successful in order to supplement those who refused to do so because it violated the "first principle of association." If the economically successful wanted to help the poor, there would be no need for a government middleman; the church and neighbors would be better avenues given that they often know the situation of the destitute better than a government, distant or local. However, if there were to be a welfare program, it should include only those who were physically unable to work.

In the nineteenth century, new strategies began to develop. According to welfareinfo.org, "Throughout the 1800s welfare history continued when there were attempts to reform how the government dealt with the poor. Some changes tried to help the poor move to work rather than continuing to need assistance. Social casework, consisting of caseworkers visiting the poor and training them in morals and a work ethic was advocated by reformers in the 1880s and 1890s." This emerged in addition to the welfare laws that had existed prior which served primarily to assist veterans of wars and their wives while they were away at battle, who were virtually all restricted to their homes.

The twentieth century saw the largest expansion of social welfare laws the U.S. has ever seen. Exhibit "A" is the Social Security Act of 1935 under the administration of President Franklin Delano Roosevelt. This was a part of the Second New Deal, which aimed to provide assistance for the retired elderly by reserving a fraction of their wages as well as to fund states in helping aged individuals (Title I), for unemployment insurance (Title III), Aid to Families with Dependent Children (Title IV), Maternal and Child Welfare (Title V), public health services (Title VI), and the blind (Title X) (Achene, 1986). One of the strongest criticisms of Social Security is that the money that citizens are promised when they retire is not based on the funds that they themselves contributed. Rather, in Ponzi style,[10] it is based on assets mulcted from people who come after them in the age distribution. At the outset, beneficiaries of this scheme were paid even they had not donated. Another problem is that, given changing demographics, more and more retirees will have to rely and fewer and fewer laborers to support their payments. The fear is that the funds will not actually be available for them because the federal government is also borrowing from it to pay for other programs. It is in effect creating an I.O.U. system that it cannot possibly repay, especially with Baby Boomers (born between 1946 and 1964) reaching the age of retirement en masse. This is a larger demographic than the following generations who are facing large obstacles to employment to fund what the government owes their grandparents. In practice, the Social Security system has younger people paying for their elder's retirement supplements while the population of older people exceeds that of younger people capable of working to pay it off. This in turn means that either Social Security needs to be drastically reformed or eliminated.

As of 2015, the magnitude of the program's effect on the national budget is $1.25 trillion, or 48.56% of total mandatory spending which is 2/3 of the total federal budget (Federal Spending, 2016). There are 65.2 million baby boomers still alive, and 45 million still in the workforce and the decline in births of Generation X (born between 1965 and 1975). This is coupled with the smaller entry of the latter in the workforce in addition to the hurdles of the dot com bust and the Great Recession of 2009. This means that Social Security as it exists is unsustainable (Sincavage, 2004). Something will have to give. Initially the program relied upon a 15 to 1 ratio of workers to retirees, which has shrunk to 3 to 1, respectively. "Current predictions indicate that the Social Security trust fund will run out in 2035 if nothing is done. After this point, retirees can generally expect about 75 cents on every dollar of their scheduled benefits" (Nolo, 2016). Among the proposed solutions are raising tax revenue to pay for the difference; but this will likely stifle economic growth at a time when recovery from the Great Recession is critical in many parts of the country. Another is cutting some or all of the benefits that the program promises. Defenders of the program, such as Krugman (2005), rebut that the program's long term funding problem can be countered as long as its surpluses are invested in government bonds, which are guaranteed and backed by further taxpayer money. The problem with this is that it is a cycle that feeds upon itself.

Twenty years after FDR, President Lyndon Baines Johnson pioneered what he called the "Great Society" by promoting groundbreaking civil rights legislation, such as the Civil Rights Act of 1964, as well as immigration, public education, and the impending Vietnam War. Another major welfare program initiated under the LBJ administration that continues to this day is Medicare, which was designed to assist Americans age 65 and older with medical insurance. After Social Security, Medicare is the second largest expenditure of total mandatory spending in the national budget at $985.74 billion or 38.40% (Federal spending). The introduction of Medicare introduced a major shift in the way Americans relied on the government to take care of them in their old age. Prior to the legislation's passage, most Americans had to pay for medical care out of pocket, unless their state had its own program. According to the American Association of Retired Persons, "Currently, 44 million beneficiaries – some 15% of the U.S. population – are enrolled in the Medicare program. Enrollment is expected to rise to 79 million by 2030" (AARP). The U.S. has experienced a massive expansion of the government safety net, detracting from widening the economy and preventing further private re-investment so that citizens would be able to save sufficiently for their retirement and medical care.

4. Conclusion

We have considered several aspects of the welfare system, and have found them all wanting. We conclude that they should all be abolished. Free enterprise is a far better, and more ethical, way to protect the poor. When new doctors are welcomed to their profession, they are asked to pledge: "First, do no harm." Unhappily, the state welfare system cannot pass this hurdle.

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NOTES

1. For the case against this program, see Anderson, 1987; Anderson, 1978; Beito, 2000; Block, 2001; Brown, 1987; Delery and Block, 2006; Elder, 2016; Hazlitt, 1969; Higgs, 1995; Knight, Simpson, and Block, 2015; LaBletta and Block, 1999; Moscatello, McAndrews, and Block, 2015; Murray, 1984, 2006; Niskanen, 2006; Olasky, 1992; Piven and Cloward, 1993; Richman, 2001; Rothbard, 1996, 1998; Sowell, 2014; Tucker, 1984; Williams, 2014. For a critique of Murray, 2006, see Gordon, 2006.

2. At least at the outset.

3. It is only "positive" if we look at the recipient, and not also the donor, the taxpayer who is forced to pony up the money necessary for this program. Can we not say that there is a net benefit, since money has a diminishing marginal utility, and the donor is virtually necessarily richer than the recipient. No, we cannot deduce any such conclusion, since interpersonal comparisons of utility are invalid. But at least, initially, it is positive for the recipient, since he voluntarily accepts these funds.

4. He may well be better off taking such a position, even though he gains only $20 per week in monetary compensation. That is because of on-the-job training. If he can last for 6 months or more at steady employment, his perceived productivity level will rise significantly, and with it his pay options. But many people at this low level of the employment pyramid will not think along such lines. If they did, they would not be in such perilous economic circumstance in the first place.

5. We chose to use the generic name of food stamps as well as SNAP because it is relevant to the state of Louisiana. There are countless other acronyms in relation to programs that help needy families pay for food.

6. A similar critique of public housing, it siphons off the cream, was made by Jacobs (1989).

7. Section 8 is a federal program that was passed in 1937 and currently takes care of the majority of payments on 2.1 million homes across the United States.

8. As demonstrated by their willingness and ability to pay for them

9. This was the law requiring that the eldest male child inherited all land and property,

10. For the claim that Social Security is akin to a Ponzi scheme, or, indeed, *is* one, see Goodman, 2015; Salsman, 2011; Galles, 2013; Sowell, 2016a; Kotlikoff, 2014. For other critiques of this program along similar lines see Boudreaux, 2015; Ferrara, 1982, 1985; Gruber and Wise, 1999; Juurikkala, 2007a, b; MacKenzie, 2007; Murphy, 2005; Reisman, 2005; Rockwell, 2004; Rothbard, 1990; Rounds, 2005; Sennholz, 2004; Sowell, 2016b; Steinreich, 1996.

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