THE PROGRESS REPORT

Welfare Reform

By Fred E. Foldvary

"Welfare reform" is a change in the policy of providing government welfare assistance to the poor, shifting from just providing aid to obtaining employment and becoming self-sufficient.

The most effective welfare reform policies would be to remove the barriers that government has imposed on labor and enterprise and to improve the skills and work attitudes of the unemployed poor. While some attention is being paid to increasing the labor skills of the poor, the main policy thrust is to push the poor into jobs by removing welfare aid.

Federal legislation to reform welfare programs centers on The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the Balanced Budget Act of 1997. Many State and local governments have enacted programs to implement these acts. (See www.welfare-policy.org). One helpful example of this legislation is to enable the poor with disabilities to have some earnings, from $500 to $700 per month, without losing medical and other benefits. But this just moves one barrier further out rather than removing disincentives entirely for all workers at all income levels.

The number of people receiving welfare aid has fallen to a 30-year low, but the main cause of this is the expanding economy, as the United States has enjoyed a continuous economic boom since 1992. When the next recession and depression hits, unemployment will again escalate.

Even today, with strong economic growth, chronic unemployment is 4.5 percent, and that does not count discouraged workers who have given up looking for work, and it does not count part-time workers who would prefer to work full time. After several years of economic growth, 8 million Americans remain on welfare assistance. Welfare recipients with better skills and opportunities have found work, leaving a core of welfare receivers who will not find work unless barriers are totally eradicated.

The more fundamental and effective reform of removing barriers to work opportunities is not being pursued. The unemployed poor face the biggest barriers against employment of any group in the USA. When a person on welfare aid goes to work, she both loses the aid benefits and is faced with taxes and other labor costs. Combining these two has the effect of the highest taxes on work effort. **The tax on working for a welfare recipient is higher than that on the wealthiest tycoon.** So long as this key barrier is in place, welfare reform will fail dismally.

Tax and regulatory barriers hurt the poor in two ways.

- First, taxes greatly reduce the gain from employment, if we add social security taxes, income taxes, sales taxes on extra purchases, and the loss of welfare aid, on top of economic costs such as commuting and child care.

- Secondly, today's tax system depresses wages by using land inefficiently, as underused city landowners await higher land values, making enterprise locate in less productive marginal land, bringing down the whole wage level of the economy for all workers. The key to raising wages and ending poverty is to bring that margin of production to its natural, more productive level. That can only be done by shifting taxation from wages to land rent in order to eliminate the speculative land gains that moves the margin and thus depresses wages to a low level.

This economics of poverty is not obvious, and the public as well as the politicians remain ignorant of these economic principles. This ignorance allows the landed interests to maintain their power by what economists call "rent-seeking," obtaining favors, privileges, and subsidies by contributing to political campaigns. Greed thus feeds on apathy and ignorance.

The complete elimination of poverty and unemployment requires fundamental reforms on several fronts: public finance, voting, decentralization, education, and deregulation. The key reform of public finance, shifting taxes from wages to land rent, will not likely come about until much more of the public understands the basic economic link between land and taxation.

Two books describing this link are the classic Progress and Poverty by Henry George, and the recent book Land and Taxation, both available from the Robert Schalkenbach Foundation. Organizations promoting this understanding include the Henry George Schools, Common Ground, ARWEP (Alliance to Raise Wages and End Poverty), and others (see www.askhenry.com).

Welfare reform requires a thinking reform, a shift from just looking at the appearance of social problems to a more fundamental economic understanding of causes.