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REFOCUSING U.S. WELFARE POLICY ON ECONOMIC OPPORTUNITY

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EXECUTIVE SUMMARY

While the modern U.S. welfare system has been the subject of contentious debate since its inception in the 1960s, all sides broadly share the stated goal of providing poor Americans with opportunities for upward mobility through work. The entitlements and bureaucracy created by the Johnson administration, envisioned as aid to pave the way for upward mobility, often failed to produce the latter, prompting a conservative backlash that viewed welfare recipients as lazy and unwilling to work.

By the 1990s a consensus emerged that unconditional welfare benefits disincentivized upward mobility through work, and for some, created a culture devaluing work itself. Reforms in the 1990s required work in exchange for certain benefits, most notably the five million families receiving cash aid from the American Families with Dependent Children (AFDC) program, renamed Temporary Assistance for Needy Families (TANF).

This research finds that while work requirements may have led to some increased participation in the labor force and poverty reduction during the economic growth of the 1990s, the impacts were highly limited in reach, magnitude, and opportunities for robust upward mobility. Work requirements likely contributed to higher employment among single mothers with young children, which has persisted until today, but with small and transitory reductions in poverty. Furthermore, cost savings from the reduction in welfare rolls were offset by the need for greater bureaucracy to enforce work requirements and ultimately give far fewer people aid.

As both urban and rural communities face persistent poverty, the debate between Democrats and Republicans takes a now-familiar shape. Democrats seek more in-kind benefits such as childcare and public housing, burdened by bureaucracy and costs sometimes well in excess of the aid itself. Republicans seek stricter work requirements, now also with a track record of limited benefits and without cost savings. Few proposed reforms emphasize markets.

Welfare does not operate in a policy vacuum, and several other government policies in the mid-to-late 20th century are in part to blame for many poor Americans' continued dependence on government aid. This study examines the impact of policies on banking, housing, criminal justice, and labor market regulation that in various ways have reduced or undermined opportunities for upward mobility available to poor Americans.

These include, but are not limited to, policies explicitly targeting predominantly black urban neighborhoods. New Deal-era "redlining" practices by authorities directly diverted financial capital from these neighborhoods, depriving them of home loans and business investment with negative impacts many believe persist until today. Less business activity in these neighborhoods reduces job opportunities close to people both in proximity and within the dense network of relationships often critical for economically prosperous neighborhoods.

Further damage came from the consequences of bad urban planning and public housing policy in the mid-20th century, when often the same neighborhoods set back by redlining were designated as "slums," demolished, and replaced with high-rise public housing projects along with other public works, often of no direct benefit to the people and businesses displaced. By uprooting people and often closing neighborhood businesses, further damage was done to the social capital essential to foster urban economic mobility.

The War on Drugs, which officially commenced in the 1980s, led to pronounced increases in incarceration rates, which nationwide remain well over twice those in 1980. The negative impact on urban black neighborhoods was again particularly high, but Americans in poverty of all backgrounds have been and remain disproportionately incarcerated. In poor communities of all types the absence of young men reduced economic dynamism and strained social support systems based on personal relationships. Former inmates returning to communities faced the hurdle of prior convictions when looking for work, fueling recidivism and further strain. With issues of drug abuse and social unrest seemingly mounting in both urban and rural poor communities, many still-unreformed criminal justice policies directly or indirectly deny economic opportunity for Americans in poverty.

Increased regulation of labor markets over the same time period carried unintended consequences disproportionately impacting poor Americans. Researchers consistently find dramatic increases in professions requiring expensive and time-consuming licensing are concentrated among low- and middle-income work, clearly burdening those striving for upward mobility.

These policies' importance and detrimental impact are often forgotten when speaking abstractly about poor people, cultures of dependency, and the virtues of work. Estimating the size of their impact in poor communities, relative to that of welfare benefits and requirements placed upon them, is all but impossible. But attempts to account for past successes and failures of the modern U.S. welfare system, particularly as it relates to work, that do not consider the question against this wider policy background are fundamentally incomplete.

While some of the damage to poor communities discussed in this study is not straightforward to undo, understanding persistent poverty in this context opens possible avenues for reform beyond bureaucratically administered in-kind benefits and work requirements. Calls for occupational licensing reform and liberalized zoning and building restrictions are both pro-market and anti-poverty. Efforts at criminal justice reform gain even greater urgency. This more complete picture of poverty and opportunity also strengthens calls for a simplified welfare system focused more on direct aid and less on mandating certain choices for aid recipients.

These challenges are all part of complicated and ongoing debates, and much work remains to make them part of an actionable anti-poverty agenda. Importantly, the findings and policy implications of this study form the foundations of a message that is empowering and respectful to those in poverty. There is much scope for as-yet-unrealized progress in reducing poverty that is not only consistent with but advances economic freedom and individual liberty.

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PART 1

INTRODUCTION

Since the inception of the modern United States welfare system in the 1960s, the stated goal of almost all supporters, opponents, and reformers has not been lifelong government aid, but rather a path to self-sufficiency and upward mobility for poor Americans. In the 1990s, responding to the persistent number of Americans still dependent on welfare, the government enacted reforms to either require or incentivize recipients of aid to work.

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The 1990s reforms were motivated by the idea that the U.S. welfare system, as it then stood, disincentivized work by providing benefits not conditioned upon recipients' participation in the labor force.[1] Some also asserted that beyond individuals' decisions, such a system contributed to a culture that devalued work, which could in part be undone by requiring work to receive certain benefits.[2]

Assessing the direct impact of the 1990s work reforms is key to further progress in reducing poverty. But the U.S. welfare system has not evolved in a policy vacuum, and other government policies may impact poor Americans' decisions about work or have consequences that reduce opportunities. Understanding welfare programs and reform in this wider context may change how we interpret their direct effects and suggest other reforms to advance the stated goals of antipoverty policy.

Part 2 of this study describes how the U.S. welfare system, and debates about it, have evolved from the 1960s to the present. Part 3 examines the impacts of the 1990s work reforms on both poverty and welfare spending. Part 4 identifies other government policies that are often not considered in debates about welfare and work but are critical in explaining persistent poverty and poor Americans' decisions about work. Part 5 concludes with a brief discussion of future antipoverty policy.

1 Kathryn Edin, et al, *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work*, (New York: Russel Sage Foundation, 1997).

2 Lawrence Mead, *The New Politics Of Poverty: The Nonworking Poor In America*, (New York: Basic Books, 1992).

PART 2

THE MODERN U.S. WELFARE SYSTEM

2.1 JOHNSON'S WAR ON POVERTY

The presidency of Lyndon Johnson typically marks the beginning of the modern U.S. welfare system. In his State of the Union speech in 1964, Johnson said of the package of programs soon to be known as the War on Poverty, “Our aim is not only to relieve the symptom of poverty, but to cure it and, above all, to prevent it.”[3]

The efforts of the Johnson White House remain both consequential and controversial to this day. The policy initiatives put into law during the subsequent few years still comprise the lion's share of in-kind federal entitlements to low-income Americans. They include Medicaid—the largest single benefit in the modern welfare system—along with food stamps, subsidies for public schools in low-income districts, and a host of training and education programs, including the Job Corps and Head Start programs housed under the new federal Office of Economic Opportunity.[4]

3 Robert Rector and Rachel Sheffield, "The War on Poverty After 50 Years," The Heritage Foundation, 2014. www.heritage.org/poverty-and-inequality/report/the-war-poverty-after-50-years (7 Oct. 2021).

4 Dylan Matthews, “Everything you need to know about the War on Poverty,” *Washington Post*, 8 Jan. 2014. www.washingtonpost.com/news/wonk/wp/2014/01/08/everything-you-need-to-know-about-the-war-on-poverty (7 Oct. 2021).

Johnson's approach of delivering in-kind benefits through large federal agencies was highly costly and subject to the realities of politics and bureaucracy. Though beneficial to some, they were far from a "cure," making political backlash inevitable.

2.2 REAGAN'S WAR ON HANDOUTS

Beginning in the 1970s, some conservatives began to lay blame at the feet of poor Americans themselves, exemplified by another presidential candidate, Ronald Reagan, whose speeches notoriously referred to the "welfare queen." Though that narrative softened with time, the idea that welfare—often conceived of as the provision of unconditional benefits or "handouts"—was a failure has persisted as a central theme of conventional wisdom on American poverty ever since.

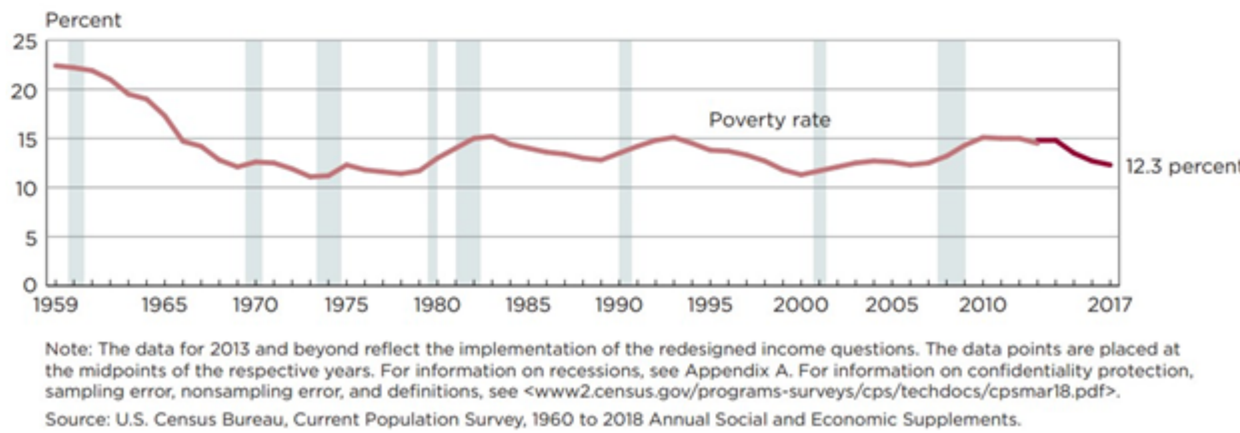
The "Welfare Queen"

In 1974, an expose on con-artist Linda Taylor, who extracted hundreds of thousands of dollars from the American welfare system, appeared in the *Chicago Tribune*. Taylor had committed a litany of crimes, far more than just living off the government's largesse, but she became known as the "welfare queen," and catalyzed a national discussion on the possibility of American workers being incentivized to take advantage of an expanding array of federal welfare benefits.

By 1976, governor and presidential candidate Ronald Reagan had picked up on the term "welfare queen," speaking at his rallies of a politically potent composite character taking advantage of taxpayers' generosity and breeding a culture of entitlement in the nation's poorest communities. For Reagan, the War on Poverty threatened to undermine the American work ethic, which was a key driver of individual and national prosperity. His focus on the character of welfare recipients themselves, however, was at best superficial and at worst a politically opportunistic play to stoke still-festering resentments in the wake of Civil Rights reforms.

While deeply flawed, Reagan's criticism of the U.S. welfare state did reflect the increasingly prevailing view that the country was not winning the War on Poverty. As the 1970s gave way to the 1980s, inner-city violence stemming from the illegal drug trade and police attempts to suppress it became common themes in the news media and provided a window into the unacceptable conditions in many housing projects. Top-line statistics also suggested the country's policy wasn't working. As Figure 1 from the U.S. census shows, after falling in the first few years of Johnson's initiative, the overall poverty rate has shown no downward trend and instead appears to move with the business cycle.

FIGURE 1: POVERTY RATE AS REPORTED BY U.S. CENSUS CURRENT POPULATION SURVEY



Source: U.S. Census Bureau, Current Population Survey, 1960 to 2018 Annual Social and Economic Supplements. https://www.census.gov/content/dam/Census/library/visualizations/2018/demo/p60-263/figure4.pdf Accessed 20 Oct. 2021

2.3 CLINTON'S WAR ON WELFARE DEPENDENCY

It wasn't until the presidency of Bill Clinton that government made meaningful attempts to reform the system. The narrative upon which Clinton and many others settled is often called "welfare dependency." In this formulation, it is not the poor who have failed but the government, offering poorly designed programs that foster a culture where taking initiative and finding employment are no longer valued. The primary solution was work-based reforms to the system in the form of both requirements and subsidies. Government would provide help, so long as recipients worked or made good-faith efforts to find work.

Then-candidate Clinton summed up the approach in a 1992 speech:

> *For so long, government has failed us, and one of its worst failures has been welfare. I have a plan to end welfare as we know it, to break the cycle of welfare dependency. We'll provide education, job training and child care, but even those who are able must go to work, either*

> *in the private sector or in public service.... It's time to make welfare what it should be—a second chance, not a way of life.*

The welfare dependency narrative arose as a sort of compromise between Johnson's War on Poverty and the ensuing conservative backlash that saw Johnson's in-kind benefits as giving poor Americans handouts, or something for nothing in return. Welfare dependency accepted the idea from the conservative backlash that the welfare recipients were making undesirable choices, such as not working, but moved the blame to the welfare system itself. Clinton's "welfare-to-work" reforms were the chief policy change recommended by the narrative of welfare dependency. Part 3 explores those reforms and their impact.

PART 3

WELFARE REFORMS OF THE 1990S: DID WORK REQUIREMENTS WORK?

3.1 WELFARE-TO-WORK REFORMS

Welfare-to-work reforms sought to encourage work through both carrots and sticks. Clinton's tripling of the Earned Income Tax Credit (EITC) subsidized work, offering a large tax break to lower-income workers, though providing no such benefit for people not working and earning an income of zero.[5]

Another reform penalized then-welfare recipients for not working. The Temporary Assistance for Needy Families (TANF) program recast the federally run Aid to Families with Dependent Children (AFDC) program as block grants to states with the requirement that a certain percentage of recipients either work, meet one of a list of exemptions, or enroll in support and training programs.[6] In 2021, for example, states received a total of $16.5 billion in such grants, while contributing an additional $10.3 billion directly from state funds.

5 Jennifer Sykes, et al, "Dignity and Dreams". American Sociological Review. 80 (2): 243–267.

6 Gene Falk, "The Temporary Assistance for Needy Families (TANF) Block Grant: A Legislative History," Congressional Research Service, 6 Oct. 2021.

Federal input into TANF work requirements comes in the form of guidelines to the states, which have significant discretion in implementation. Recipients are typically required to work at least 20 hours per week (in the case of single-parent households) with the hours requirement increasing based on family structure and economic condition.[7]

Recipients who can work but cannot find jobs are required to participate in state-run training programs or are given exemptions based on circumstances including having infants under the age of one or disabilities. Failure to comply or gain an exemption results in dismissal from the program.

Figure 2 shows that a TANF program that inherited five million families from its predecessor AFDC in 1994, but that fell to just over two million by the end of the Clinton presidency and to 1.7 million in 2013, according to the Department of Health and Human Services.

FIGURE 2: NUMBER OF FAMILIES RECEIVING AFDC/TANF AID

Source: Gene Falk, "Temporary Assistance for Needy Families (TANF): Size and Characteristics of the Cash Assistance Caseload," Congressional Research Service, 29 Jan. 2016, 4. https://sgp.fas.org/crs/misc/R43187.pdf Accessed 20 Oct. 2021.

7 Gene Falk, et al., "Work Requirements, Time Limits, and Work Incentives in TANF, SNAP, and Housing Assistance." Congressional Research Service, 9 Nov. 2016.

Many policymakers and analysts continue to view work requirements as successful and essential in future anti-poverty efforts. Some statistics suggest the series of programs has benefited some welfare recipients.

The Brookings Institution found that single mothers (the group most commonly receiving benefits from TANF and its predecessor) went from an employment rate of 60% just before the TANF reform to 72% in 1999.[8] Child poverty rates also fell. According to the poverty rate for U.S. children in the Supplemental Poverty Measure (SPM), after reaching a peak in 1993 of 27.3%, fell ten percentage points by the end of the decade.[9] These top-line numbers appear to tell a story that the decline in welfare rolls (such as TANF in Figure 2) were due to former welfare recipients transitioning from welfare to work, and even self-sufficiency. A 2014 empirical analysis by the Congressional Research Service broadly concurs with the efficacy of work requirements, viewing them along with earlier benefits as having transformed the "welfare, work, and poverty status of single mothers," who comprise the majority of welfare beneficiaries.[10]

Behind the promising statistics, the economic logic of work requirements hinges on them reducing the problem of welfare dependency.

Behind the promising statistics, the economic logic of work requirements hinges on them reducing the problem of welfare dependency. Whether benefiting taxpayers through reduced welfare rolls, or the recipients themselves by "getting the incentives right" and equipping them for jobs and self-sufficiency, the seemingly common-sense assumption is that more work is always better.

8 Robert Moffitt, "From Welfare to Work: What The Evidence Shows.," Brookings Institution, 2002. www.brookings.edu/research/from-welfare-to-work-what-the-evidence-shows/ (8 Oct. 2021).

9 Dana Thompson, et al, "Lessons From a Historic Decline in Child Poverty," Child Trends, 2022. https://doi.org/10.56417/1555c6123k (27 Dec. 2022)

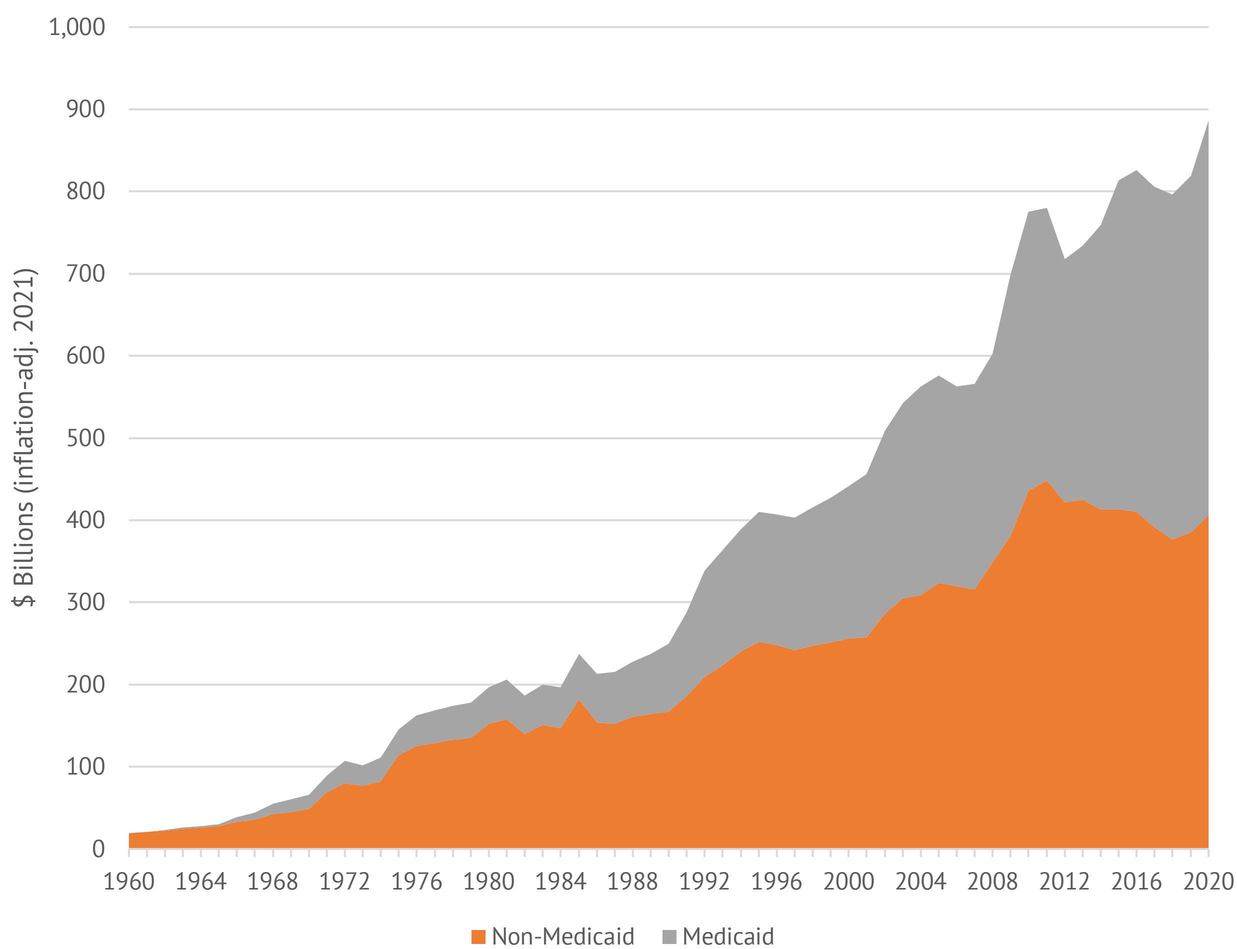
10 Congressional Research Service, "Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987-2013." 21 November 2014.

3.2

THE RISING COST OF WELFARE AND WORK REQUIREMENTS

The work reforms of the 1990s brought limited if any savings to taxpayers. As Figure 3 shows, in the wake of work reforms, U.S. non-Medicaid welfare spending may have briefly leveled off in the 1990s but did not result in long-term spending reduction.[11] Figure 4 shows a clear upward trend in non-Medicaid spending per poor person in the United States that has continued virtually uninterrupted for 60 years.[12]

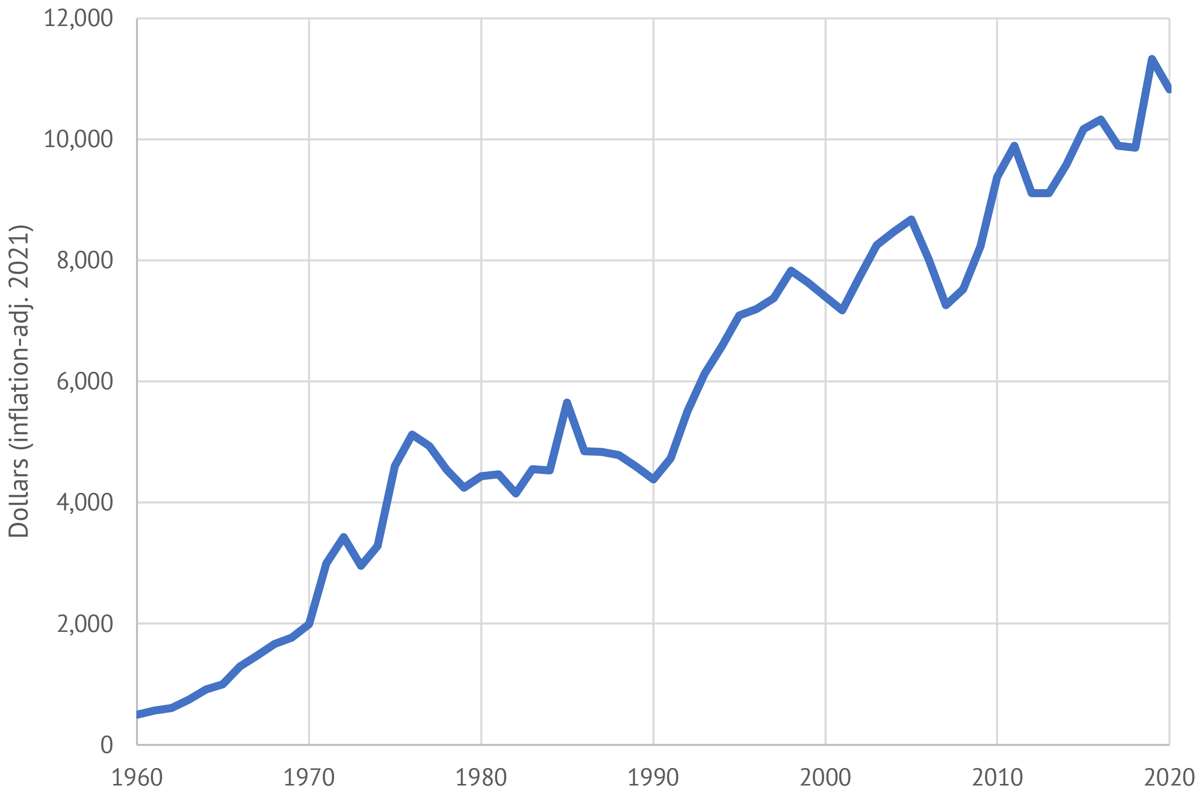
FIGURE 3: TOTAL U.S. WELFARE SPENDING (1960 – 2020)



[11] U.S. Census CPS Annual Reports via Federal Safety Net https://federalsafetynet.com/welfare-programs/ (23 Apr. 2023).

[12] Ibid.

FIGURE 4: U.S. NON-MEDICAID WELFARE SPENDING PER PERSON UNDER POVERTY LINE



This may be surprising given the drastically reduced number of recipients for programs like TANF. But assistance programs that are highly conditional and seek to incentivize specific decisions for millions of people are inescapably attached to complicated and costly bureaucracy.

For example, Table 1, reprinted from the Center on Budget and Policy Priorities, breaks down TANF spending, providing an eye-opening snapshot of the high cost of getting incentives right.[13] In 2019, just over one-fifth of combined federal and state spending on TANF were benefits actually paid directly to recipients. Though the exact definitions of several categories are difficult to determine and may lead to underestimating benefits paid, the result nonetheless shows that bureaucratic costs are important and difficult to avoid.

13 Ali Safawi and Liz Schott, "To Lessen Hardship, States Should Invest More TANF Dollars in Basic Assistance for Families," Center on Budget and Policy Priorities, 2021. https://www.cbpp.org/research/family-income-support/to-lessen-hardship-states-should-invest-more-tanf-dollars-in-basic (11 Oct. 2021).

TABLE 1: 2019 FEDERAL AND STATE TANF SPENDING BY CATEGORY

Basic Assistance/Work Activities		**Other Activities**	
Basic Assistance	21%	Program Management	10%
Work Activities	10%	Refundable Tax Credits	9%
Work Supports and Supportive Services	3%	Pre-K/Head Start	8%
Child Care	16%	Child Welfare	8%
		Other	14%
Total	50%	Total	49%

Source: Ali Safawi and Liz Schott, "To Lessen Hardship, States Should Invest More TANF Dollars in Basic Assistance for Families," Center on Budget and Policy Priorities, 12 Jan. 2021. https://www.cbpp.org/research/family-income-support/to-lessen-hardship-states-should-invest-more-tanf-dollars-in-basic Accessed 22 Oct. 2021.

A program adding a work requirement to a welfare benefit received by millions must be both effective and fair. A bureaucracy must interface with millions of households to verify they meet the requirement and impose sanctions if they do not. If recipients report trying to find a job and being unable, the program must provide training and address constraints such as the availability of affordable childcare.

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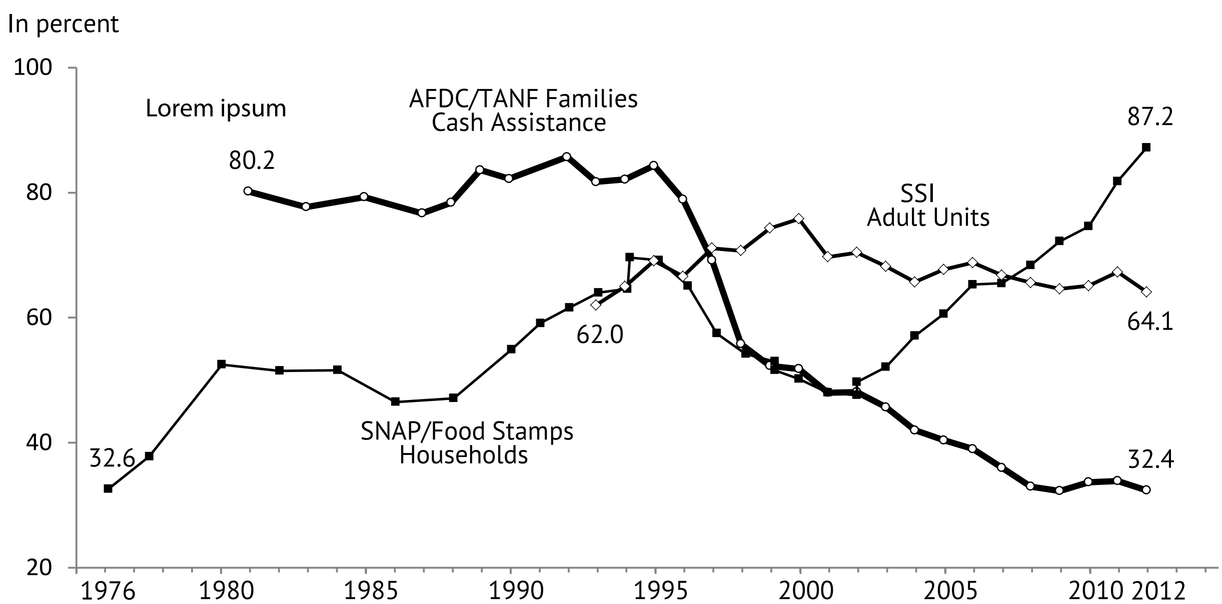
The net result of the transition from AFDC to TANF was providing aid to fewer families while instead spending that money on new state-level bureaucracies to require work. Research suggests the added bureaucracy has not performed well. One study by the Center on Budget and Policy Priorities of Tennessee's program, for example, found that a third of dismissals from the program were for incorrect reasons or inappropriate application of sanctions and exemptions.[14]

[14] Laura Meyer and LaDonna Pavetti, "TANF Improvements Needed to Help Parents Find Better Work and Benefit From an Equitable Recovery," Center on Budget and Policy Priorities, 2021. https://www.cbpp.org/research/family-income-support/tanf-improvements-needed-to-help-parents-find-better-work-and (11 Oct. 2021).

Viewing work requirements on a small number of programs in a vacuum can also be misleading. During the Clinton presidency, enrollees in Social Security disability programs increased by about two million while TANF shed about three million recipients. Data tracking people over time from program to program and agency to agency are virtually nonexistent, making it impossible to estimate how many made this switch, but the introduction of work requirements created a plausible incentive consistent with the data.

FIGURE 5: RATES OF PARTICIPATION IN MEANS-TESTED ASSISTANCE PROGRAMS



Source: Gilbert Crouse et al., "Welfare Indicators and Risk Factors: Fourteenth Report to Congress," U.S. Department of Health and Human Services, 2015, p. II-17. https://aspe.hhs.gov/sites/default/files/private/pdf/116161/FINAL%2520Fourteenth%2520Report%2520-%2520FINAL%25209%252022%252015.pdf Accessed 22 Oct. 2021.

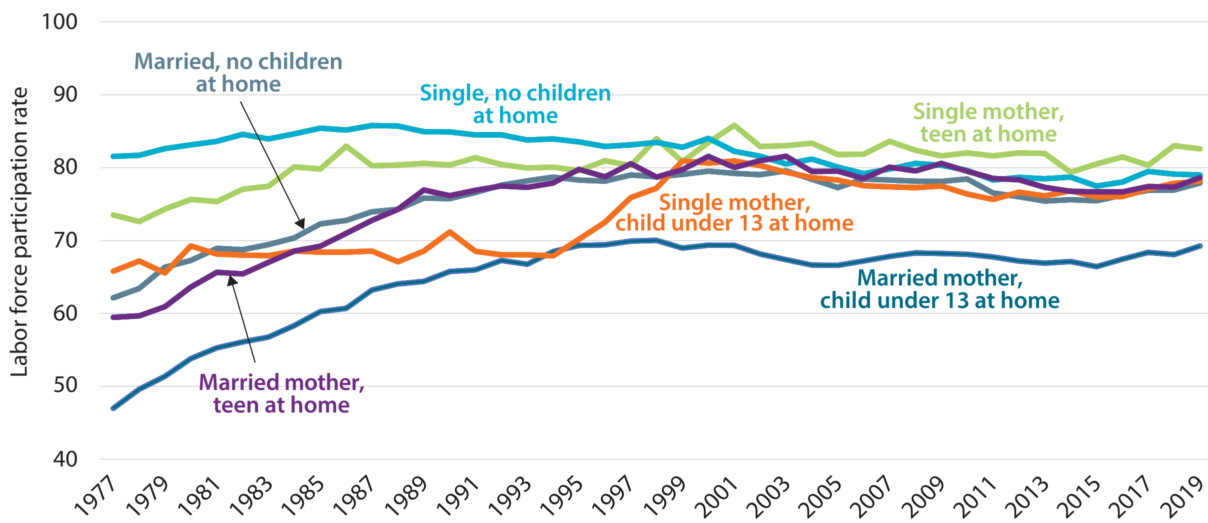
The problem is a microcosm for our entire welfare system. The labyrinth of over 90 programs, left behind by alternating democratic and republican administrations, has reached $1 trillion in total cost, a number much larger than the total gap between participants' incomes and the poverty line.[15]

15 Max Gulker, "How Top-Down Government Fails America's Poor," American Institute for Economic Research, 2019. https://www.aier.org/article/how-top-down-government-fails-americas-poor/ (accessed 24 April 2023).

3.3 LIMITED BENEFITS

The substantial increase in employment to which many credit the 1990s reforms is concentrated among single mothers with at least one child under 13, as Figure 6 shows. Work rates of single women with no children or older children did not change during this time period.

FIGURE 6: WOMEN'S LABOR FORCE PARTICIPATION BY MARITAL STATUS AND PRESENCE OF CHILDREN



Source: Lauren Bauer et al., "Ten Economic Facts on How Mothers Spend Their Time," The Hamilton Project, March 2021. https://www.hamiltonproject.org/assets/files/Maternal_Time_Use_Facts_final.pdf Accessed 22 Oct. 2021.

The employment impact of work requirements appears to have been concentrated among the group of women whose time carries the highest opportunity cost—those without a spouse who are responsible for the care of young or adolescent children. And this is one of many potentially complicated circumstances the prospective worker may face, especially amid the realities of poverty.

Individuals who exited the welfare rolls after the 1990s work reforms because they failed to meet the new requirements may also have created new costs to their families and communities. In 1996 on the eve of TANF reforms, 62% of non-working single mothers lived independently, while that share dropped to 52% by 1999.[16] Those not living independently were split between staying with extended family, friends, and other acquaintances.

Individuals who exited the welfare rolls after the 1990s work reforms because they failed to meet the new requirements may also have created new costs to their families and communities.

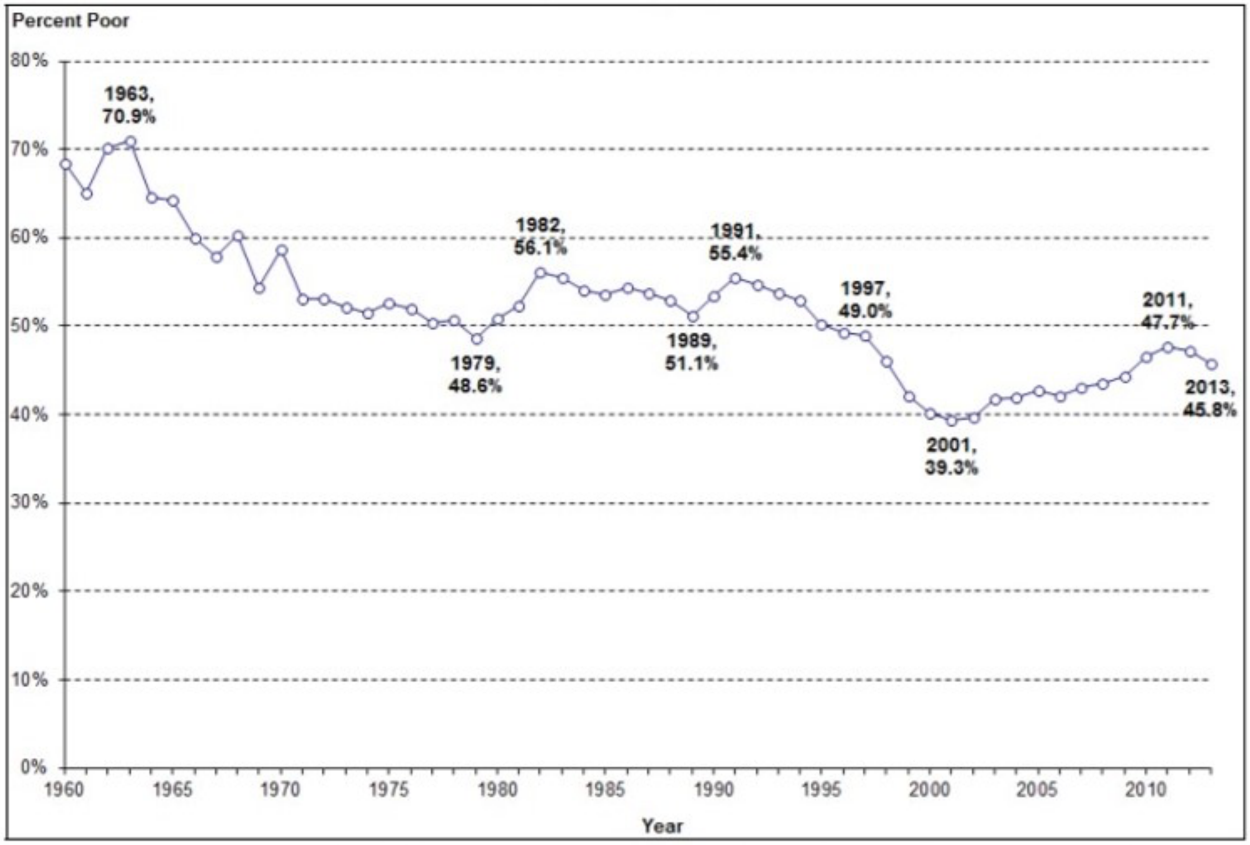
While these social ties—as a means for members of society to take care of each other—are indeed a good thing, they also once again demonstrate the hidden costs and unintended consequences of one-size-fits-all rules such as work requirements. In poor communities, where meeting daily needs through a variety of sources often causes people to move from one emergency to the next, helping meet the needs of relatives and other close social ties may particularly strain the time and budgets of many.

Proponents of the 1990s work reforms also frequently point to a concurrent decline in child poverty. Presumably, if work reforms helped a substantial number of families get off welfare rolls entirely, such poverty reduction would be large and robust. Figure 7, reprinted from the 2017 CRS study, tracks the poverty rate of single mothers' children from 1960 through 2013.

The 10-percentage-point drop between 1997 and 2001 seen in Figure 7 potentially indicates some positive impact of the 1990s work reforms, though the decade's overall economic prosperity likely also contributed to the magnitude of this decline. By the next decade, though, the majority of that decline in poverty had been reversed.

16 Gabe, "Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987-2013," 7.

FIGURE 7: POVERTY RATE OF SINGLE MOTHERS WITH CHILDREN



Source: Gabe, "Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987-2013."

TANF has not primarily been a job-*creating* program. Though some surely benefited from training and help looking for jobs, such jobs were not new or newly open opportunities. Were they sources of work that offered self-sufficiency or potential upward mobility, many would likely already have chosen them over modest government benefits.

PART 4

CONSEQUENCES OF U.S. HOUSING, LENDING, REGULATORY, AND DRUG POLICY FOR POOR AMERICANS' UPWARD MOBILITY

Whether or not one believes the 1990s work reforms were a net benefit to poor Americans, they were limited in reach, and persistent poverty remains. This is clear from basic numbers like employment and income, but more broadly borne out in the general sense of stagnating opportunities and increasing political tension from both predominantly urban and black, and predominantly rural and white, poor communities.

In response, Democrats and Republicans increasingly favor more government involvement, and stress the same types of programs and reforms that already characterize the modern welfare system. Democrats call for more in-kind benefits such as childcare and public spending on education and housing. Republicans generally favor more and stricter work requirements. Few proposed reforms emphasize markets.

In doing so they ignore several government policies impacting poor communities just before and concurrent with the modern welfare state that have undermined, whether intended or not, poor peoples' prospects for upward mobility through work. Some of these policies were directed disproportionately at black communities.[17] While white Americans are the largest group in number below poverty, black Americans continue to be overrepresented in that group.[18] The next section examines these policies' specific racial target and intent, and discusses others that have harmed poor Americans of all backgrounds.

Major policies on housing and homeownership, the War on Drugs, and general labor market regulation have constrained poor Americans from taking similar paths to prosperity as many others have. The outcomes of ill-conceived policy have not only restricted job opportunities, but reduced the financial, human, and social capital that play a large role in enabling upward mobility.

4.1 REDLINING AND "URBAN RENEWAL"

Between 1935 and 1940, the federal Home Owners' Loan Corporation (HOLC) created maps and neighborhood descriptions intended to help guide the lending decisions of banks and mortgage lenders. HOLC gave each neighborhood a grade of A through D, with the neighborhoods receiving a grade of D notoriously marked in red on maps.[19] HOLC characterized D-graded neighborhoods as "hazardous."

HOLC did not hide the fact that they explicitly considered ethnic makeup in assigning neighborhood grades.

HOLC did not hide the fact that they explicitly considered ethnic makeup in assigning neighborhood grades. The *Mapping Inequality* project at the University of Richmond's Digital

17 For documentation of this disproportionate targeting, see Rachel Ferguson and Marcus Witcher, *Black Liberation Through the Marketplace,* (Brentwood: Emancipation Books, 2022), and Richard Rothstein, *The Color of Law,* (New York: Liveright, 2017).

18 John Creamer, et al, "Poverty in the United States: 2021." U.S. Census Bureau, 2022. Table A-1. https://www.census.gov/library/publications/2022/demo/p60-277.html (retrieved 22 April 2023).

19 Robert K. Nelson, et al, ""Mapping Inequality: Redlining in New Deal America," *dsl.richmond.edu*, University of Richmond. Dsl.richmond.edu/panorama/redlining/#loc=2/41.257/-105.469&text=intro (7 Oct. 2021).

Scholarship lab is worth quoting at length regarding HOLC's concerns about the "infiltration" of multiple ethnic groups:

> *The "infiltration of negroes" informed the grades of neighborhoods in Birmingham, Oakland, Charlotte, Youngstown, Indianapolis, Cleveland, Los Angeles, and Chicago; the "infiltration of Jews" or "infiltration of Jewish families" in Los Angeles, Binghamton, Kansas City, and Chicago; the "infiltration of Italians" in Akron, Chicago, Cleveland, and Kansas City. The infiltration of Polish, Hungarian, Czech, Greek, Mexican, Russian, Slavic, and Syrian families was cataloged in other cities, always lowering the grade of neighborhoods.*

Statistics confirm the particularly discriminatory treatment of black neighborhoods. The black share of the population in D-graded neighborhoods was already twice as high when the maps were drawn.[20] And while difficult to measure with accuracy, the resulting lack of ability for households and businesses to borrow appears to have had lasting impacts. Economists from the Federal Reserve Bank of Chicago looked at outcomes in areas on either side of the border of neighborhoods given different grades:[21]

> *We find that areas that received a lower grade on the HOLC maps experienced worse housing market outcomes with respect to homeownership, house values, rents, and vacancy rates over subsequent decades. This suggests that there was significant and persistent housing disinvestment in the wake of restricted credit access.*

Redlining denied low-income communities access to credit and financial capital, essential for creating robust economic activity. It also directly informed government policy that fell under the euphemistic term "urban renewal."

Between 1949 and 1974, the federal government approved $13 billion of subsidies to local municipalities to clear "blighted" neighborhoods and replace them in some cases with public housing, but in other cases with highways and other municipal and cultural projects. So-called "slum clearance" displaced over 300,000 families via eminent domain, often with insufficient compensation.[22] Black neighborhoods were again disproportionally targeted for

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[20] Emily Badger, "How Redlining's Racist Effects Lasted for Decades," *New York Times*, 2017.

[21] Daniel Aaronson, et al., "The Effects of the 1930s HOLC "Redlining" Maps," Federal Reserve Bank of Chicago, 2020. www.chicagofed.org/publications/working-papers/2017/wp2017-12 (7 Oct. 2021).

[22] Brent Cebul, et al, "Renewing Inequality: Urban Renewal, Family Displacements, and Race: 1950-1966), *dsl.richmond.edu*, The University of Richmond. https://dsl.richmond.edu/panorama/renewal/#view=0/0/1&viz=cartogram&text=about (7 Oct. 2021).

slum clearance, one reason being the deterioration in areas that had been "redlined" during the HOLC initiative.[23]

> *So-called "slum clearance" displaced over 300,000 families via eminent domain, often with insufficient compensation. Black neighborhoods were again disproportionally targeted...*

In many cases displacement turned homeowners into renters in new public housing projects, described by *Mapping Inequality* as "thousands of acts of intergenerational wealth theft." But physical buildings are only one type of asset stolen or destroyed by "urban renewal." The destruction and dislocation of especially dense urban neighborhoods also has stark consequences for less tangible assets essential to individuals, families, and communities.

Political scientist Robert Putnam has defined social capital as "connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them."[24] He has written that slum clearance in the mid-20th century "almost certainly destroyed social capital" by "disrupting existing community ties."[25]

Jane Jacobs' landmark 1961 book *The Death and Life of Great American Cities* illuminated how the emergent order in dense urban neighborhoods encodes the knowledge, connections, and relationships of its residents, intangible but highly valuable assets to people and communities.[26] She was also an early and prescient critic of slum clearance, illustrated in the following testimony contained in her book:

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23 Richard Rothstein, *The Color of Law*, (New York: Liveright, 2018). 97.

24 Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community*. (New York: Simon and Schuster, 2001). 19.

25 Robert D. Putnam, "Tuning In, Tuning Out: The Strange Disappearance of Social Capital in America," *Political Science and Politics* 28 (Dec. 1995). 664 – 683.

26 Jane Jacobs, *The Death and Life of Great American Cities*. (New York: Random House, 1961). 132.

> *"Even a ghetto [he quoted a pastor as saying], after it has remained a ghetto for a period of time builds up its social structure and this makes for more stability, more leadership, more agencies for helping the solution of public problems." But when slum clearance enters an area [Salisbury went on], it does not merely rip out slatternly houses. It uproots the people. It tears out the churches. It destroys the local business man. It sends the neighborhood lawyer to new offices downtown and it mangles the tight skein of community friendships and group relationships beyond repair.*

Residents of cleared "slums" often found themselves in monolithic, nondescript housing projects, designed by big-picture-focused and deeply misguided architects and urban planners. As slum clearers often used the HOLC redlining maps, the government-led destruction of financial capital in part enabled the destruction of buildings and social capital.

The degree of harm from this series of polices together is often underappreciated. In addition to the direct harms already discussed, redlining and housing policy greatly diminished communities themselves as sources of prosperity. Commercial lending denied to black neighborhoods via redlining, and subsequent disruption of social ties and destruction of neighborhoods, reduced work opportunities both physically within poor communities and embedded within existing social ties.

"Commercial lending denied to black neighborhoods via redlining, and subsequent disruption of social ties and destruction of neighborhoods, reduced work opportunities both physically within poor communities and embedded within existing social ties."

Together, these policies also harmed the ability of communities and other networks of social connections to provide support during down times. As discussed in Part 3, a grandmother caring for a grandchild may be common in both poor and wealthier communities but is likely to strain the former more since the grandmother and close relations are more likely to also be poor. But redlining and "urban renewal" went even further, disrupting the social ties that are necessary to perform this function, while also denying investment funds to people in the same communities who could, with prosperity, help offset such costs. Churches and other larger "civil society" institutions are similarly harmed by disruption of social ties and lack of local prosperity.

4.2 THE WAR ON DRUGS AND INCARCERATION

As the War on Drugs gained steam in the 1980s, often fueled by disturbing news images from the very housing projects built by public authorities, policing and prosecution took an aggressive turn. If one held incarceration rates constant at 1991 levels—still far from the peak—a black male would have a 29% chance of spending time in prison at some point during his life, with all the employment and housing consequences that engenders.[27]

The data show that these policies have done disproportionate harm to poor communities across the board. A 2015 report using data from the Bureau of Justice Statistics found that the pre-incarceration median incomes of incarcerated people were considerably lower than the median incomes of those who have never been incarcerated. Table 2 shows that this correlation between poverty and incarceration is visible across gender and ethnicity.

TABLE 2: MEDIAN ANNUAL INCOMES OF PEOPLE INCARCERATED VS PEOPLE NEVER INCARCERATED

	Incarcerated People (prior to incarceration)		People Never Incarcerated	
	Men	Women	Men	Women
All	$19,650	$13,890	$41,250	$23,475
Black	$17,625	$12,735	$31,245	$24,255
Hispanic	$19,740	$11,820	$30,000	$15,000
White	$21,975	$15,480	$47,505	$26,130

Source: Bernadette Rabuy and Daniel Kopf, "Prisons of Poverty: Uncovering the pre-incarceration incomes of the imprisoned," Prison Policy Initiative. 2015. https://www.prisonpolicy.org/reports/income.html (28 Dec. 2022)

The implications for lost human capital are likely profound. From those released but unable to find employment due to felony convictions, to the psychological damage the prison system inflicts on many, to the removal of mostly working-age men from the population, the War on Drugs has had huge costs for the economic vitality of communities.

27 Katharina Bucholz, "Black Incarceration Rates Are Dropping in the U.S.," *Statista.* https://www.statista.com/chart/18376/us-incarceration-rates-by-sex-and-race-ethnic-origin/ Accessed 20 Oct. 2021.

4.3 OCCUPATIONAL LICENSING

The expansion of occupational licensing requirements is another mid- to late-20th century policy trend that reduced job opportunities and upward economic mobility for poor Americans. In 1950, less than 5% of the American labor force worked in jobs requiring a license from the government (typically issued at the state level). In 2016, 22% worked in jobs requiring government licensing.[28]

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The *License to Work* report by the Institute for Justice catalogs licensing requirements across states for 102 low- and middle-income jobs. The report's third edition catalogs 2,749 state-issued licenses. Licensing rules—along with what jobs require them—often vary widely by state and can impose many different costs on workers seeking to enter a profession or start a business. On average, the costs of obtaining the licenses catalogued in the report include "362 days lost to education and experience, at least one exam, and $295 in fees."[29]

The increased prevalence of occupational licensing limits the potential effectiveness of work requirements as means to address welfare dependency. Americans receiving welfare benefits are less likely to meet the educational requirements of licensed occupations and less able to afford the often-significant licensing fees. With high up-front costs for precisely the type of jobs offering upward mobility, welfare recipients facing work requirements may be forced to take low-paying and low-skilled jobs unlikely to relieve their dependence on government aid.

28 Brian Meehan, et al, "Barriers to Mobility: Understanding the Relationship Between Growth in Occupational Licensing and Economic Mobility." Archbridge Institute, 2017.

29 Lisa Knepper, et al., "License to Work: A National Study of Burdens from Occupational Licensing, 3rd Edition." Institute for Justice, 2022.

Combining the Institute for Justice dataset on occupational licenses (and changes across states over time) with data on intergenerational economic mobility, researchers find evidence consistent with this hypothesis. A statistically significant correlation exists between growth in occupational licensing and reduced upward mobility in low-income families.[30]

Sadly, the negative effects of occupational licensing on employment opportunities are often compounded for ex-criminal offenders.

Sadly, the negative effects of occupational licensing on employment opportunities are often compounded for ex-criminal offenders. Licensing rules often restrict those with criminal records, either through outright bans or more subjective "moral character" provisions that put the status of ex-offenders in the hands of state agencies.[31] The increase in arrests and prosecutions associated with the War on Drugs means certain poor urban communities may be especially held back economically by occupational licensure.

Fewer job opportunities can also lead to higher rates of criminal recidivism, potentially leading to a vicious cycle that for some may be difficult to escape. Indeed, studies have found significant correlations between the stringency of occupational licensing and recidivism[32] or instances of property crime.[33]

30 Meehan et al., "Barriers to Mobility: Understanding the Relationship Between Growth in Occupational Licensing and Economic Mobility."

31 Matthew D. Mitchell and Liya Palagashvili. "Economic Freedom in the Period of Invisible Punishment: Occupational and Business Licensing Barriers That Restrict Access to Work for Those with Criminal Records," Mercatus Center Policy Brief, 2022.

32 Ibid.

33 Thomas Snyder and Saliou Ouattra, "Occupational Licensure and Property Crime." *Journal of Regional Analysis and Policy*. 48(1): 92-98. 2017.

PART 5

DISCUSSION

Many poor Americans still depend on government aid. The limitations of work requirements and persistence of poverty after the 1990s reforms can lead to false interpretations when focusing exclusively on welfare policy and topline numbers like employment and income. As observers on both the left and right appear to become more extreme, they move further away from markets as an indispensable engine of prosperity.

"As observers on both the left and right appear to become more extreme, they move further away from markets as an indispensable engine of prosperity."

On the left, Princeton sociologist Matthew Desmond sees exploitation as the primary cause of persistent poverty.[34] His zero-sum framework alleges that non-poor Americans benefit from persistent poverty, in ways both large and small, entrenching the status quo. On the right, NYU political scientist Lawrence Mead writes of the virtue of current and perhaps future work requirements, deemphasizing the importance of economic incentives and

[34] Matthew Desmond, *Poverty, by America*. (Westminster: Crown, 2023).

turning back to the recipients' supposed shortcomings: "As welfare reform in the 1990s aptly illustrated, simply telling the poor that they can and must work generates more gains in employment than any incentive."[35]

Against the backdrop of misguided housing, drug, and regulatory policy, however, a different picture emerges. All the policies discussed in this study, whether or not intended, reduced poor Americans' opportunities for upward mobility. Assessing the relative impacts of each policy is nearly impossible, but these factors nonetheless suggest new avenues to achieve the widely agreed upon goals of antipoverty policy.

Large government programs providing in-kind benefits, and reforms such as work requirements, suffer from similar fundamental problems. Neither rigid benefits nor requirements are informed by the unique circumstances of poor individuals. They also require expensive bureaucracies, which over time often become ineffective but self-sustaining.

Future antipoverty policy might focus on removing the constraints poor people face in participating and benefiting from markets, entrepreneurship, and the building of community institutions from within. One such reform is simplifying the welfare system itself.

> *Decades of shifting political winds and often ad hoc reform has left a welfare system with over 90 programs.*

Decades of shifting political winds and often ad hoc reform has left a welfare system with over 90 programs. Difficulties for poor people in finding available aid sources, not to mention navigating multiple bureaucracies and sets of rules, result not only in inefficiency of the whole system but pose time costs and uncertainty on individuals.[36] Reducing such costs may spur economic and social activity in poor communities. On the flipside,

35 Lawrence Mead, "Are Work Requirements Dead?" *National Affairs*, Spring 2021. https://www.nationalaffairs.com/publications/detail/are-work-requirements-dead (11 Oct. 2021).

36 Annie Lowry, "The Time Tax." *Atlantic Monthly*. 27 July 2021.

complicated benefit cliffs further distort recipients' decisions about work, both through disincentives and uncertainty.

A simplified system carries tradeoffs of its own, and debates about accomplishing this goal are ongoing, for example in the literature on basic income. The analysis in this study leaves considerable remaining room for debate but helps illuminate the potential benefits to poor people of moving to a simplified system.

While both major parties have moved further from classical liberal ideas, this does not mean those with that position cannot craft a positive antipoverty agenda with the potential to be more empowering to the poor and more effective. Those making the case against occupational licensing increasingly focus on its impact on poor Americans. The War on Drugs and criminal justice reforms are other familiar issues only increased in urgency by the ways they entrench poverty.

The damage done to poor Americans and their communities by the policies explored in Part 4 means their legacy must be part of the discussion in future antipoverty efforts. But rectifying that damage can be prohibitively difficult as a matter of policy, posing a dilemma and area for future work. The Left and Right at times blame government for past failed policy, but rarely address how or why these failures will not continue under their future proposals. The consistent ill effects of policies discussed herein are grounds not to give up on further progress, but rather to emphasize bottom-up measures, with poor Americans and their communities at the center.

Critical assets like social capital and the capacity of families and communities to help each other cannot be restored as simply as they were taken away. They involve people in those communities cooperating and innovating. There is no reason to doubt the capacity or desire of poor people and their communities to do so. The tendency of those ostensibly providing the help to prescribe decisions and outcomes they assume are best may impose costly constraints along with assistance.

ABOUT THE AUTHOR

Max Gulker, Ph.D., is a senior policy analyst at Reason Foundation.

Gulker's research and writing focus on social policy issues and debates. Gulker's recent research topics include welfare and work requirements, the impact of recent government policy on urban poverty, childcare, and cash assistance. Rather than traditional top-down approaches, Gulker looks for social policy alternatives where the private, public, and non-profit sectors empower, rather than dictate to, people, families, and communities in need.

Prior to joining Reason Foundation, Gulker spent five years with the American Institute for Economic Research, where he wrote on social policy, including employment, education and healthcare, and emerging technology, including cryptocurrency, tech antitrust, and the sharing economy. Gulker has appeared on television news outlets including the Fox Business Channel, print media including *The Wall Street Journal*, and podcasts including Kibbe On Liberty and Let People Prosper. He has presented research, given speeches, and participated in panels at conferences on economics, technology, and politics.

Gulker received his BA in economics from the University of Michigan in 2000 and his Ph.D. in economics from Stanford University in 2008. Prior to entering the policy research field, he spent several years in the private sector, consulting on litigation including antitrust, intellectual property, bankruptcy, and shareholder class actions.