

INCENTIVES MATTER: EXAMINING THE PROBLEMATIC NATURE OF PUBLIC
AID IN THE UNITED STATES

by

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DEDICATION

For everyone who has aided and abetted my pursuit of knowledge.

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ABSTRACT

INCENTIVES MATTER: EXAMINING THE PROBLEMATIC NATURE OF PUBLIC AID IN THE UNITED STATES

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In chapter 1, I argue that the institutional and constitutional context within which order emerges has a strong impact on the structure of that order. I examine the evolution of public-assistance policy in the United States to understand key dynamics of a perverse emergent order. Traditionally, studies of spontaneous social orders have not examined how order emerges within a framework that includes significant government actors (Hebert and Wagner 2013 is a notable exception). I argue that the public-assistance system as it exists in the United States is a perverse emergent order, with both public and private actors playing key roles in the creation of this system.

Chapter 2 examines why, though the 1996 Clinton welfare reforms aimed to encourage current and potential public-aid recipients to pursue sustainable, self-sufficient lifestyles, the architects of the program misunderstood the nature of poverty, so created

inadequate solutions. I focus on the work mandates built into the Temporary Assistance for Needy Families program and show that mandating work attacks the symptoms of poverty without addressing the fundamental causes. Mandating work as a provision of receiving public aid will do little to help the least well-off in society if policy makers don't simultaneously create the conditions (perhaps more appropriately, remove the restrictions) under which jobs for low-skilled and/or low-income individuals can emerge. Further, these requirements fail to help the deep poor, the population social safety nets generally target. These policies suffer from a pretense of knowledge, and it should be unsurprising that they fail to achieve their stated goals.

It is nearly universally presumed that redistribution can be carried out effectively only at the national or even global level, because local redistribution will be negated through personal mobility: recipients will move to high-paying jurisdictions while taxpayers will move away from those jurisdictions. To avoid this situation requires redistribution to be concentrated at national and not at local levels. In contrast to this standard line of argument, in chapter three I explore how redistribution might be carried out more effectively at local levels than at the national level. To explain this reversal from standard analytical implications, I integrate three concepts that are not present in the standard analysis. These concepts are the Samaritan's dilemma, co-production, and polycentricity. It is interaction among these three concepts that reverses the implications of the standard analysis of redistribution.

USING THE EVOLUTION OF PUBLIC ASSISTANCE POLICY TO EXPLORE THE DYNAMICS OF A PERVERSE EMERGENT ORDER

“When policy outcomes are seen as a result of people’s interactions as they pursue their interests in an institutional or constitutional order, one cannot attribute the disparities between the rationalization and the reality of policies to error or external events. Policy outcomes must be regarded instead as a natural outcomes of the pattern of costs and rewards contained within any institutional or constitutional regime.” (Wagner 1989, 216)

I. Introduction

In 1950, six million people received some sort of public aid (Perkins 1951). Last year, more than one hundred million Americans received public aid from some state or local entity, averaging \$9,000 per recipient.¹ Currently, the federal government funds 126 federal programs for low-income residents, 72 of which provide direct cash benefits or in-kind aid to those who qualify (Tanner and Hughes 2013). State, county, and municipal governments provide hundreds of other benefits for their low-income residents. Ever since the War on Poverty was declared by President Johnson in his 1964 State of the Union address, the federal government has spent more than \$22 trillion on redistributive programs meant to help low-income residents move up the socioeconomic ladder; yet despite this massive spending, the official poverty rate has remained approximately

¹ These figures do not include Social Security or Medicare.

steady (Rector and Sheffield 2014). The current system represents a dramatic departure from the size and scope of the welfare state in earlier eras. When Johnson declared the War on Poverty, federal and state governments were spending sixteen times less on means-tested public-assistance programs than they are today, adjusting for inflation (ibid.). And the system represents an even more significant departure from before the Progressive era, when most social-welfare activity was organized through private initiative, as explored by Himmelfarb (1991), Olasky (1994), and Beito (1992, 2002).

Many analysts look to major events and key players to make sense of how public assistance in America evolved from a limited, mostly private system to the extended, mostly public system we have today. Olasky (1994), for example, works through how various key pieces of social-welfare legislation in the United States changed the incentives for the suppliers, demanders, and potential demanders of these legislative acts. Examining the evolution of Social Security, Derthick (1979) explores how specific groups of experts have shaped the structure of the program over time. Haskins (2006) provides a similar treatment of the creation of the Temporary Assistance for Needy Families legislation.

While any given piece of legislation is the result of significant public ordering, it also represents the outcome of millions of individual actions—both large and small. That is to say, there are both planned and unplanned aspects of government policies; the intentions are planned, but the results are emergent. Here I explore the elements of the public-assistance system that can plausibly be described as constructed versus those that

can be thought of as emergent.² However, though many (if not most) spontaneous orders are widely considered by social scientists to be socially beneficial, in the sense that buyers and sellers get what they want without imposing significant externalities on others, the order characterizing the provision of public assistance in the United States has clear elements of perversity.

Martin and Storr (2008) created an entryway into the examination of perverse emergent orders. According to them, “beyond acknowledging that emergent orders are not always beneficial, not a whole lot has been written which outlines the nature of perverse emergent orders, the feedback mechanisms which sustain them, and the conditions under which they emerge” (2008, 74). Martin and Storr outline some key features of what would constitute a perverse emergent order, and illustrate the concept with two examples: mob behavior and shared belief systems that hinder social progress. Both emerge spontaneously, but neither are socially beneficial. They admit that “social good and bad are normative not positive questions,” but they go on to say that pushing spontaneous-order theorists to seriously grapple with the implications of perverse emergent orders allows us to “[focus] our attention on the rules which lead to the emergence of an order, and the kinds of activities that are encouraged and discouraged by those rules” (2008, 85).

² I use the term *public assistance* here, in contrast to the broader notion of *social welfare*, for two reasons. One, the boundaries of social-welfare programs are not clearly defined and often include aid to the relatively well-off (through, for example, so-called corporate welfare). Two, the word “social” is what Hayek calls a “weasel word” (1988, 114) in that it tends to be equated with moral righteousness and encourages planning in the place of allowing spontaneous ordering processes to flourish.

I use the evolution of the public-assistance system in America to further explore the dynamics of perverse emergent orders. My main goal is not to understand the welfare state per se, but how order emerges in social interactions that include significant amounts of public ordering. Both of Martin and Storr's examples pertain to perverse orders that emerge in the private sphere (though, admittedly, in response to repressive government actions). I am interested in extending their analysis to situations where government actors play a significant role in creating and perpetuating the order. This requires a clear understanding of which facets of the order are organized according to principles of public, constructed ordering versus those that are organized through private, emergent ordering. It also requires a rigorous identification of individuals' choice variables within given political and social constraints (as opposed to outcomes that emerge as a product of human choices), and the institutional setting in which the individuals act.

In the following section, I will provide more detail on the characteristics of perverse emergent orders, in contrast to beneficial emergent orders. Section III will discuss the constitutional-, policy-, and individual-level considerations necessary to understand how a perverse order might emerge. I will more clearly delineate choice variables from variables that lie outside the realm of direct individual choice. Section IV will discuss what an institutional framework would look like in which public assistance would not be plagued with perverse incentives. Section V will draw implications and conclude.

II. Recognizing Perverse Emergent Orders

In reasoning about what constitutes a perverse emergent order, it is useful to first sketch the opposite of a perverse emergent order. A sensible antonym for *perverse* in this context is *cooperative*. If we take this as our starting point, beneficial emergent orders are those that enhance possibilities for cooperation, while perverse emergent orders are those that diminish such possibilities. As Hayek (1973) emphasized, emergent orders themselves can have no purpose since they are not created by any group of outside agents with clear ends in mind. However, we can examine the functions emergent orders serve in a particular social order and the general character of the order that results from the millions of purposive individual actions. Here I will sketch the characteristics of perverse emergent orders.

While it seems a bright line can be drawn between spontaneous orders and planned orders, in reality it is not quite so clear. Most social orders are characterized by elements of both planning and spontaneity. Market relationships are mostly spontaneous, but many market relationships are impacted by planning of one sort or another. Take the labor market, for instance. While it is mostly a well-functioning market in which coordination is achieved through reconciling the wants of laborers and employers, many government intrusions lead the market away from coordination. Minimum-wage legislation, for example, prevents employers from hiring those who have low skills but nonetheless could add value to the company at low wages. Workplace-safety regulations prevent employees who value compensation over safety from making that trade-off. It is incorrect to call the labor market in this instance a planned market, but neither is it fully spontaneous.

Because the boundaries between planning and spontaneity are fuzzy, it is also difficult to make a firm distinction between a perverse emergent order and a beneficial emergent order. Even perverse orders may benefit some of the players involved. The public-assistance system in the United States, for example, incentivizes individuals to choose leisure over work in a variety of instances. While the long-run prospect of upward mobility may be harmed by long-term aid, from the point of view of the individuals operating within this system, aid at a point in time may be significantly better than their next-best available alternatives. Yet even in this case, the order is not one of mutually beneficial plan coordination, but one where some groups can only benefit at the expense of others. Those receiving aid can only do so as long as someone else is funding them.

Yet it seems that this type of order is most likely to persist where some external actors enforce this arrangement. If one group profits at the expense of another, markets generally have mechanisms to correct this problem. In the unhampered market, the wants of both buyers and sellers are brought into accord because the rules that structure their exchanges are clear and encourage mutually beneficial interactions. Further, if a seller or a buyer turns out to be unhappy with any aspect of the exchange, feedback mechanisms allow them to express their dissatisfaction. These feedback loops perpetuate the beneficial characteristics of this dynamic, emergent system. However, in the case of public assistance in the United States, various policy changes over the years have extended the program to more and more individuals, which has in turn created more entrenched interests in perpetuating the program. The iterative change in demand for and supply of social-welfare programs has created a feedback loop that over time has led to

the order we now observe. Certainly, price theory can partly explain the growth of the current ecology of social-welfare programs. People generally prefer leisure to work, and when it becomes relatively less costly to engage in leisure, people will substitute more leisure for work. Current programs effectively subsidize leisure. However, as Hayek explains, prices both reflect past actions and signal how to proceed in the future (1931). In this case, prices, in the form of subsidies and implicit taxes on earned income, not only signal to low-income families how to modify their behavior to maximize their public-aid payoff (see Tanner and Hughes 2013), but signal to policy makers how to change the programs to maximize their political payoff. In this way, growth of these programs is self-perpetuating.

At some low level of government intervention, the beneficial characteristics of the market remain robust enough to outweigh the negative characteristics associated with government management of what would otherwise be private affairs. Indeed, a small social-welfare system, if it is appropriately designed to help only those who are unable to get help through other means, may actually promote positive social outcomes. Yet as Ikeda (2002, 2005) shows, incentives for further regulatory and legislative actions tend to manifest themselves once the negative consequences of a particular government action come to light. Any particular law or regulation has both supporters and detractors; but the supporters tend to be better organized than the detractors, and have stronger incentives to ensure their preferred programs will be enacted or expanded (Olson 1971). Further, because government programs do not generate revenue, they necessarily derive sustenance from the private sector (Pantaleoni 1911). A tipping point likely exists at

which perverse incentives outweigh the beneficial effects of a program. When this point is reached, an order moves from being concordant to being discordant.

III. Levels of Order

When examining any social order, three levels of analysis are important: the constitutional level, the policy level, and the level of individual interaction. The particular character of each level is important for understanding the overall social order. As the public-choice literature has made clear, people are not benevolent in one type of institutional setting and self-interested in others. Consequently, the formal rules that shape a system of social order should strive to bring out the best in men, and allow the worst to do the least amount of harm. As Wagner notes, “proper analysis is not so much a matter of examining alternative policies and recommending better ones as it is a matter of comparing alternative constitutional regimes” (1989, xiv). Rules shape human interaction; the important question to ask is what rules will lead to cooperation versus and what will lead to perverse, anticooperative outcomes.

Since “policy outcomes are understandable consequences of the pattern of costs and rewards contained in an institutional or constitutional regime” (Wagner 1989, 199), I begin my study of the perverse outcomes of public-assistance policy at the constitutional level. Though the government of the United States was founded on contractarian principles, we have moved increasingly in the direction of majoritarian democracy (Wagner 1989; Holcombe 2002). In a contractarian democracy, government in principle rests on the consent of the governed, as illustrated by the preamble to the US Constitution: “We the people... do ordain and establish this Constitution for the United

States of America”. In designing the US government as a constitutionally limited democracy, however, the Founding Fathers wrestled with the problem that democracy contained within it tendencies to promote factionalism. To resolve this problem, the drafters of the Constitution gave relatively few powers to the federal government and instead left a great deal of authority to state and local governments. This, they thought, would allow for greater consent since most collective choices would be undertaken at levels appropriate for the nature of the action under consideration.

However, relative to the Articles of Confederation, the US Constitution placed fewer constraints on the government and endowed it with more power from the outset. This opened the door for gradual expansion in the size and scope of federal power, and with that expansion, space for special interests to attempt to profit through the political system. Over time, the US political system has evolved from a contractarian to a majoritarian democracy, in which winning coalitions of interests can impose costs on others.

People are rational actors in any environment; and the particular institutional-constitutional setting within which they find themselves structures their choices. External constraints help determine what constitutes rational conduct in a particular setting. Government policies (e.g., legislation, judicial rulings, and regulation) impose some of the constraints on individual actors. However, if political actors operate within a contractarian democracy, the constraints the policies impose generally must be agreed upon by more individuals than in a majoritarian democracy. While it is tempting to try to correct the ill effects created by any particular policy by passing countervailing policies,

this often further disrupts the feedback mechanisms that work to correct systemic errors (Ikeda 2005). Understanding both the rules and the feedback mechanisms helps make sense of the evolution of an emergent order. Yet as I will explore further in section V, the feedback mechanisms tend to work better the closer the connection between suppliers and demanders of legislation and public programs.

Policies passed by legislators and executed by bureaucracies are clear cases of constructed order. Public policies are attempts by bureaucrats who are far removed from the situation to influence specific outcomes in the social world. Government actors specifically design public-assistance legislation to alleviate poverty and improve the distribution of income. The policies are not objects of choice for the intended beneficiaries, but rather are made on their behalf. The responses of individuals to these legislative and bureaucratic actions, however, are direct choices. Consequently, the overall order often diverges substantially from the world envisioned by the policy makers. The actions and interactions of individuals create the collective demand for the growth or shrinkage of these programs. The overall order is thus an emergent system operating within a specific institutional and constitutional regime, even if certain parts of that order are actively constructed.

IV. Public Assistance Policy as a Perverse Emergent Order

Now that I have sketched a framework, I will focus on one particular type of order, one which is a paradigmatic example of a perverse emergent order: the social order surrounding public assistance in the United States. As Hayek recognized, it is important to clearly demarcate the parameters of the order you are examining, since orders at a

lower level are themselves part of a larger social order. According to Hayek, “the family, the farm, the plant, the firm, the corporation and the various associations, and all the public institutions including government, are organizations which in turn are integrated into a more comprehensive spontaneous order” (1973, 46). I am interested here in examining only a subset of the order of society. Certainly, the perversity of one subset will ripple through the rest of the order; but merely because some subsets of the social order are perverse does not mean all subsets will be characterized by the same coordination-disrupting incentives.

About until the Progressive era, nearly all public assistance was provided at a very local level, which allowed for a close connection between the funders of that assistance and those they were funding (see Himmelfarb 1991; Olasky 1994; Katz 1996). The contractarian ideal was closely approximated in this setting. In the Progressive era, the role of government in society began to change, and more than in any previous era, people began considering public servants to be well equipped to handle social affairs—including aid provision. Though the 1860s saw the passage of legislation providing Civil War pensions at the federal level, that was really the only federal public-aid legislation that had existed at the time progressive ideology began to capture the American imagination. Though it was not until the 1930s and the passage of the New Deal programs that the welfare state significantly expanded, the Progressive era shaped the intellectual environment in which public decision making would be made for decades to come. The progressives sought to approach social problems in a scientific manner, and thought professionalizing the civil service would help rationalize the provision of aid to the poor.

At the end of the Progressive era, as part of his presidential campaign Warren Harding even proposed establishing a federal department of public welfare (Tanner 1996, 40). Though Congress ultimately rejected the proposal, the seeds were set for an ever-larger role for government actors in the public aid arena.

Even when the New Deal legislation of the 1930s was passed, Americans on the whole were still largely hostile to providing public aid indiscriminately. Yet over time, more and more people have come to accept a larger role of the state in alleviating the problems of want and misery. This gradual acceptance has created opportunities for government actors and agencies to continually expand the scale and scope of public aid. As increasingly more individuals have come to have an interest in expanding the public system, the system has expanded to meet this demand. In this respect, the passage of President Johnson's Great Society legislation in the 1960s is just one notable milestone in the march toward ever-more public aid.

The key problem is that the incentives created by the system have evolved to make aid receipt ever more attractive relative to work. Phelps (2013), for example, documents how the expansion of public-assistance programs since the 1960s has significantly decreased American dynamism. While the stated aim of these programs is to improve the distribution of income, these programs also affect the amount of income that people earn in society, as well as the output that they generate. Public-assistance programs impact both current and potential workers. It is well documented that implicit tax rates mean that those receiving assistance would have to receive a large, discontinuous jump in earned income to make it pay to take on additional work (see, for

example, Edwards and de Rugy 2015). Mulligan (2012) blames these high implicit tax rates for exacerbating the Great Recession by blunting the incentives for marginal workers to return to the workforce. The explicit tax rates faced by current workers also make it relatively attractive to substitute some labor for leisure as marginal tax rates rise, since the opportunity cost of engaging in extra leisure falls.

Public ordering in the provision of public assistance has influenced the structure of the social order. The feedback mechanisms disciplining both suppliers and demanders now maintain a level of poverty and aid provision that allows public actors to maintain a permanent clientele. All players in the aid-provision game are affected by the expansion of public ordering in this sector. The private suppliers of aid act in the same ecology as the public providers, so if they desire to continue attracting clients, they naturally must operate within the current structure. In response to a larger role for public ordering in the construction of the social-welfare system, the incentives of the recipients have also changed so that they accept—and indeed, desire—a larger role for the state in this arena. To answer Martin and Storr’s question about whether a perverse emergent order can be self-perpetuating or whether it is bound to self-destruct, it seems that in the case of public assistance administered within a majoritarian democratic system, the elements of public ordering prevent mechanisms from correcting errors that might otherwise be corrected. The system perpetuates discordance, and thereby falls under the rubric of a perverse emergent order.

V. Frameworks in Which Public Aid Would Not Be Pernicious

Through the foregoing analysis, it has become clear that it is not the public character of most public-assistance programs that has made the overall order pernicious. Rather, it is the provision of aid within an environment that encourages indiscriminate provision and does not clearly connect the purchase of these programs (via taxes) from the consumption of these programs. Moving back toward a constitutional structure that resembles a contractarian democracy, rather than a majoritarian democracy, would surely lead to more cooperative outcomes. It would allow the purchasers of politically provided public-assistance services to have greater control over the services. However, because the shift from a contractarian system has come over a great number of years, a return to the old system seems infeasible in the near future. The question then becomes how to move back in the direction of mutually beneficial public-aid provision and overcome the pernicious incentives that permeate the current structure.

As explored in Tuszynski and Wagner (2016), public assistance could more effectively be provided within a polycentric order that encouraged coproduction. Polycentricity would overcome many of the negative incentives discussed above because it would not make any particular aid provider the provider of last resort. In the current system, public aid is provided indiscriminately for at least two reasons: (1) much of the decision-making power is centralized, meaning providers cannot feasibly tailor programs to particular recipients; and (2) providers who know potential recipients have few other options for getting help are less willing to turn down an applicant. If, however, aid providers knew that any applicants they turned down would have the chance to apply for aid elsewhere, they would not feel as if they were making essentially life-or-death

choices. They could more easily tailor programs to particular subsets of needy people, knowing that other organizations were working to tailor their programs to other types of needy people. Further, these organizations could more credibly impose conditions on receiving assistance, such as requirements that recipients refrain from certain destructive behaviors or that they work at least twenty hours per week. Since these requirements would demand more active participation by the recipients, the organizations would enlist the recipients as coproducers in the creation of their own future.

Though ideally this would play out within a contractarian democracy, the beauty of this system is that it would not require a full-scale constitutional change to be effective. To be sure, it would require federal assistance programs to work within an ecology of competing programs, which would make the change politically be difficult to achieve. However, the growing expense of federal—and even state—public-assistance programs makes some devolution a possibility. Indeed, when the Aid to Families with Dependent Children program was reformulated as the Temporary Assistance for Needy Families program as part of the 1996 Clinton welfare reforms, a great deal of administrative responsibility was handed back to the states. While many states continue to function as effectively monopolistic providers of public aid, the growing expense of these programs means it is at least conceivable that some states will allow other providers to operate within their borders. Short of the ideal of allowing multitudinous competing entities, this is a realistic step in the direction of an institutional framework in which life outcomes would be products of full choice, rather than products of limited choice.

VI. Conclusion

Emergent orders permeate social reality, but the academic literature seems to focus mainly on socially beneficial orders. Here I build on Martin and Storr (2008) in probing some dynamics of perverse emergent orders. My examination is necessarily preliminary. Yet understanding the role that public ordering can play in creating and perpetuating perverse emergent orders moves us one step closer to understanding these emergent orders more generally.

In closing, I would like to reiterate two points. Firstly, I am not the first to recognize that emergent orders can have perverse characteristics. Indeed, Hayek himself conceded that emergence itself does not entail beneficial effects. Yet it does seem to be the case that systematic perversities may arise when government agents intrude in the otherwise well-functioning operations of the market. Markets are not perfect, but given that we live in an imperfect world, it would be surprising if they were. Markets, however, contain tendencies toward error correction; this tendency can be disrupted when government tinkering becomes widespread.

Secondly, it is certainly the case that reasoning about perverse emergent orders entails some value judgements. I have argued that if we take the desired ends of public actors as given, the outcome of the public aid process is pernicious. Their stated goal is to reduce poverty, while simultaneously creating a safety net that helps the poor and downtrodden without creating incentives to abuse the system. Putting aside the question of whether these goals are incompatible, we can question whether these stated goals capture the full reality of what legislators, bureaucrats, and other social reformers are looking to achieve. If we take as a starting point that these reformers would like to

achieve a society of free and responsible individuals, then the social order created by public assistance programs is clearly perverse. However, if we take as a starting point that social reformers consider themselves better able to make decisions for the poor than the poor themselves, then the observed outcome would not be considered perverse. Here, I have taken only the stated ends as given; but if we incorporate these unstated valuational presuppositions into the analysis, the framework is considerably complicated. This is a clear avenue for future research.

WHY THE 1996 CLINTON WELFARE REFORMS ARE A POOR MODEL FOR ENCOURAGING WORK AND FINANCIAL INDEPENDENCE

I. Introduction

Chapter 1 examined the evolution of our entire social-welfare edifice in the context of perverse emergent order within a polycentric system. This chapter turns to one specific program, and critically examines the incentives inherent in its structure. Specifically, I look at the work incentives built into the Temporary Assistance for Needy Families (TANF) program and argue that the incentives are not appropriate for generating the outcomes the creators of the program were trying to achieve. Not only does this program create perverse incentives for those on the margin between eligibility and ineligibility, but it fails to help the deep poor, whom, at least rhetorically, safety-net programs are designed to help the most (Shaefer and Edin 2013). Furthermore, because the causes of poverty are multifaceted and differ significantly from person to person, centralized solutions are bound to be inadequate because they are unable to tailor solutions to the unique circumstances of potential benefits recipients.

Additionally, mandating work as a requirement for receiving assistance raises the supply of workers above what it would be absent this legislation. Unless demand for workers increases simultaneously, a shortage of jobs will result. Again, this tends to impact the least-skilled workers—those most in need of help—since employers can be

more discriminating when choosing employees when labor supply exceeds labor demand. Consequently, the deep poor neither receive aid nor receive income from earnings.

To pull people out of poverty, history shows that creating conditions for opportunities to emerge has a better track record than mandating work. Both over time and across countries, times of rapid economic growth pull people out of poverty and into relative prosperity (Phelps 2013; Mokyr 1990; McCloskey 2010; Rosenberg and Birdzell 1987). If the federal government really wants to encourage self-sufficient living while maintaining the traditional dynamism of the American workforce, a more effective way to do this would be to remove restrictions that prevent good jobs from emerging for low-skilled, low-income individuals.

In the next section, I will provide detail on the particulars of the TANF work requirements. In section three, I will examine the theoretical reasons why the Clinton welfare reforms fail by their own standards. In section four, I will historically examine why the idea of simply saying “You must work” as a requirement for receiving welfare suffers from both knowledge and incentive problems. The fifth section will discuss how expanding opportunity successfully pulls people out of poverty in a variety of contexts, and will examine barriers to upward mobility in the United States. The final section will draw implications and conclude.

II. The TANF Work Requirements

The TANF program was signed into law by Bill Clinton in 1996, as part of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), and was the culmination of years of bipartisan pushes for significant welfare reform. As Clinton

repeated often in the years leading up to the passage of the PRWORA, his goal was to “end poverty as we know it” by incentivizing people to move out of welfare and into sustainable, self-sufficient lifestyles. The original purposes of the TANF program were fourfold. It sought to “provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives” and “end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.”³ The other two stated purposes, which will not be a focus of this chapter, were to discourage the incidence of children being born out of wedlock and to encourage stable, two-parent homes through the promotion of marriage. In practice, this legislation also ended the system of reimbursing the states for part of their welfare-assistance expenses, and instead provided funding to the states through block grants. This was meant not only to encourage states to be more judicious with their funds, but to end the era of welfare as an entitlement.

Though states had been free since the 1960s to request waivers from the federal welfare program to conduct pilot and demonstration projects, the TANF legislation gave the states more responsibility for designing and implementing their own programs. However, the federal government required states to meet some stipulations to receive their block grants. Here I focus on the work-related provisions of the act.⁴ For one, at least half of the states’ cases had to be engaged in “work-related activities,” with a wide

³ Sec. 401. [42 U.S.C. 601]

⁴ States were also required to impose a 5-year lifetime limit on benefit receipt, though states could choose to enact shorter limits, or longer limits (so long as they paid for the latter out of their own funds), and to encourage family formation and the reduction of out-of-wedlock pregnancies and births.

variety of activities meeting that description.⁵ Also, single parents were required to participate in at least thirty hours of work-related activity per week, and all recipients were required to find work within two years of receiving benefits. Amendments in 2005 to the PRWORA further stipulated that 90 percent of two-parent households must participate in a more narrowly defined set of work-related activities. However, these work requirements generally were not as binding as they might at first seem, since the legislation included a variety of ways in which states were permitted to enforce less stringent work requirements. For example, if states were able to credibly reduce their caseloads, they were allowed to exempt a larger percentage of recipients from the work requirements.

While the 1996 Clinton welfare reforms presented a strong break with the past, the empirical literature has vigorously debated whether the decline in caseloads after the passage of this legislation was due primarily to the reforms or instead a strong economy throughout the late 1990s (see Blank 2001; Ziliak et al. 2000; Grogger, Klerman, and Haider 2003; and Danielson and Klerman 2008). Here I address a slightly different question. I contend that the Clinton reforms attack only the symptoms of poverty, not the causes; indeed, the causes are diverse and differ from person to person. Consequently, despite some successes, the centralized solution suffers from a pretense of knowledge (Hayek 1975). The Clinton reforms used the rhetoric of raising people out of poverty, but due to a fundamental knowledge problem, they are at best able to transfer resources to

⁵ While unsubsidized work certainly counted, so did subsidized public or private sector employment, job search, job training, community service, vocational training, and a variety of other broadly related activities.

those who meet a prespecified set of conditions. At worst, they can actively harm people's prospects for upward mobility by incentivizing those on the margin between eligibility and ineligibility to modify their behavior so as to increase their chances to receive benefits.

III. Theoretical Reasons Why Reforms Were Misguided

On a purely theoretical level, the Clinton reforms are misguided since the ends desired are not consistent with the means employed. Though the bulk of the rest of the chapter will focus on the knowledge and incentives issues that plague the legislation, it is worth briefly discussing how, purely within a price-theoretic framework, the work requirements create a situation other than what the authors of the legislation intended.

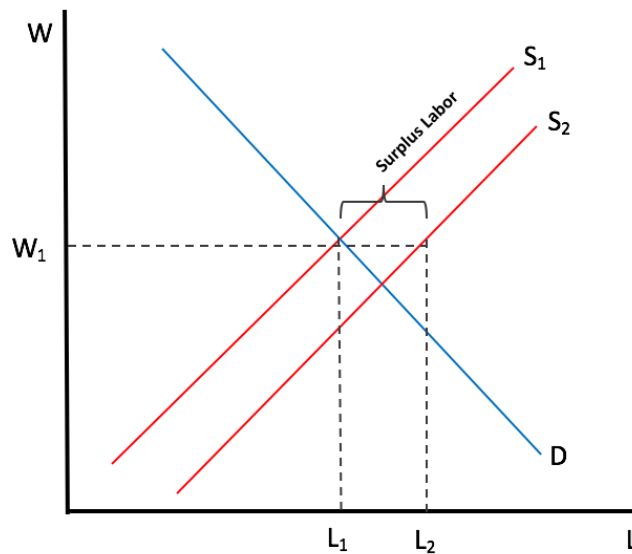


Figure 1: Labor Surplus Due to Work Requirements

Figure 1 simply illustrates the economic impact of work requirements for receiving TANF payments. Prior to the introduction of the requirements, we can imagine that the low-wage labor supply resembled something like S_1 , with L_1 individuals supplying their labor to the market and receiving a wage of W_1 . After the introduction of work requirements, the supply of labor shifted rightward since more people then sought jobs. The amount of labor supplied rose from L_1 to L_2 . However, without simultaneous inducements for employers to provide jobs, a surplus of labor resulted. In the late 1990s, the tendency toward a surplus was masked because a growing economy resulted in growing labor demand for several years after the passage of the welfare-reform legislation. However, the tendency toward a surplus clearly manifested itself in the early 2000s, when the economy slowed slightly.

In addition to the purely price-theoretic reason why such reforms are bound to result in perverse outcomes, the federal government—or indeed, any large governing body—faces certain fundamental, structural problems in attacking the root causes of poverty and reliance on aid. According to Wagner, “the central issue for public assistance has been how to provide for humane treatment of those whom we regard as genuinely unfortunate, without at the same time extending that provision to those who are merely improvident, foolish, lazy, or cunning” (1989, 2). As illuminated by Wagner (*ibid.*), the institutional milieu within which aid provision occurs sets boundaries on what types of outcomes are possible from any given legislative change. Here, well-meaning social reformers certainly wished to move people from welfare dependence to work. Yet, within the institutionally defined boundaries of the federal government, achieving this goal is

not in the actual opportunity set of these social reformers. They may desperately wish to help the needy, but they lack the tools to achieve their desired ends. Since needs are multifaceted and vary by context, government agents would have an exceedingly difficult time attaining this knowledge. In the current institutional context, they also lack the incentives to do so.

In the run-up to the passage of the 1996 welfare reforms, the political discussion focused on both the significant cost of the welfare program to the American taxpayers and the growth in caseloads in recent years. Consequently, the politicians were presented with the dual challenge of getting costs under control, and finding ways to lower the caseloads while promoting self-sufficiency. Legislators, however, are generally able only to set benchmarks for reducing poverty, and reducing administrative and programmatic costs. Bureaucrats must then seek ways to meet these benchmarks. Counterproductively, though, these constraints mean that one-size-fits-all solutions are generally chosen over solutions tailored to the needs of any particular individuals or groups, since the former type of solution is easier to implement.

The bureaucracy's structural ignorance of the needs of aid recipients creates an odd environment in which recipients are incentivized to modify their behavior so as to maximize their benefits, and people on the margin between aid receipt and self-sufficiency are incentivized to modify their behavior so as to ensure they will be eligible for the program should they need it. Further, as explored in the previous chapter, it is misleading to look at one program in isolation when considering the incentives created by the welfare state. As long as a large, complex welfare edifice remains, a change in the

eligibility provisions of one program will simply cause those on the margin of eligibility to seek help from a different program. Though the rhetoric of aid programs everywhere is to help the needy to no longer be in need, the reality is that the structure of federal aid programs prevents them from succeeding.

IV. Why Saying “You Must Work is Inadequate

Richard Wagner (2010) makes a distinction between raising and leveling as alternative conceptual frameworks for the promotion of widespread societal welfare. Most governments operate their public assistance programs within a framework of leveling. That is to say, they tax the wealthy and redistribute to the poor; in that way, they ensure that the worst-off in society do not fall into absolute destitution. However, this framework assumes a relatively fixed sum of wealth in the world, and assumes that the least well-off must receive some of the gains from the relatively better-off in order to promote some notion of social welfare. And as Wagner makes clear, leveling—by taxing and transferring income—is one of government’s comparative advantages. But if we begin our analysis with the assumption that wealth is not a fixed sum and that the least well-off and the relatively better-off can simultaneously improve their situations, then we necessarily must adopt a different conceptual framework. Within this alternative framework, the incomes of both the less well-off and the relatively better-off can rise simultaneously. Even if comparative inequality rises, absolute living standards can go up for both groups. Raising, however, is not such an easy task. It requires particular knowledge of individual circumstances, which cannot meaningfully be communicated to a centralized policy-making body. Due to both knowledge problems and incentive issues,

a centralized body can only engage in leveling. The tools at the disposal of government preclude raising people out of poverty.

IV.A. Knowledge Problems

The reorganization of the welfare system under the PRWORA stemmed from states' earlier experience with obtaining waivers throughout the late 1980s and early 1990s, which gave them permission to opt out of the federal welfare system. The welfare rolls had swollen to an unprecedented level, so states were granted wide latitude by the Department of Health and Human Services (DHHS) to conduct experimental, demonstration, or pilot programs, so long as these programs were subject to rigorous evaluation.⁶ By the time the PRWORA was passed in 1996, the DHHS had approved exemptions in forty-five states for both state and local pilot programs. However, attempts at incorporating the successes of these lower-level programs into a centralized scheme removed the flexibility that had made many of these pilot programs successful in the first place.

Take, for example, what has been called the Riverside Miracle (examined in Ziliak 2015 and Riccio, Friedlander, and Freedman 1994). In 1988, researchers evaluated six different county-level programs in California, which alternatively emphasized human-capital development or shifting low-income benefit applicants directly into work. Each county in the program was allowed to choose what portion of the aid-receiving population they wanted to randomly assign into a treatment group versus a control group.

⁶ The 1962 amendments to the Social Security Act allowed states to apply to the DHHS for an exemption from the AFDC rules in order to conduct pilot programs. However, these waivers were not widely used until the late 1980s, when caseloads exploded.

This ranged from a high of 50 percent of aid-eligible residents being assigned to treatment in Alameda, to a low of 15 percent in San Diego. Those in the control group received traditional AFDC benefits; those in the treatment groups were evaluated, and assigned to job-search activities, job-training, basic education, or directly into work.

Counties were able, for the most part, to design their programs to fit what they perceived to be the needs of their local populations. Most of those counties evaluated focused more on the job preparedness activities than on directly encouraging people to find work. Riverside, however, was unique in that it had an express work-first strategy; that is to say, program participants were discouraged from engaging in job-preparedness activities unless they were truly unable to find work. Researchers examined these approaches three years after random assignment and found that benefit recipients in Riverside who had been directly shifted into work not only had higher earnings than those who had pursued human-capital development, but had been employed for sixty-three more quarters than their counterparts.

While the actual success of this “work first” strategy in Riverside has been called into question (Hotz, Imbens, and Klerman 2006, for example, found that the successes in the county were largely due to a relatively strong local economy compared to the other counties in the study), the TANF legislation nonetheless attempted to incorporate such examples of apparent local success into its requirements. Yet much of the success of these programs is likely due to their ability to harness local knowledge. Homogenizing programs’ requirements broke the feedback loop that allowed localities to tailor their programs to their specific needy residents, and instead forced all localities to abide by the

same set of strictures. To be sure, states still have the ability under TANF to customize certain aspects of the program, but the fact that they must enforce the federal government's work requirements in order to receive funding leads to a variety of incentives issues.

The presence of asymmetric information creates a second knowledge problem. When someone comes into a local welfare office to apply for benefits, it is very difficult to determine whether they are the type of person who will use the benefit in the short term to get back on their feet or whether they have modified their behavior to increase their chances of eligibility. Because there is no good way to distinguish between the different types of individuals, welfare offices generally give aid to all who meet the requirements to receive it.

Finally, due to the bureaucratic nature of aid provision in the United States, governments are unable to tailor aid provision to the unique needs of different recipients. Rather, the federal government and the states work together to create programs that fit the needs of specific states but not specific residents. As I mentioned above, however, the reasons different people have for being down on their luck are very diverse. Consequently, a one-size-fits-all program cannot address the needs of each individual, and a government cannot design a comprehensive program to help the individual get back on their feet. In contrast, private charitable programs are able to do a much better job at tailoring aid to specific recipients, as I will explore further in the next chapter.

IV.B. Incentive Incompatibilities

According to popular rhetoric around the time the TANF program was passed, legislators supposedly crafted the work provisions in such a way as to overcome the most serious disincentives to work that had plagued TANF's predecessor, the Aid to Families with Dependent Children (AFDC) program. Between the early 1960s and the early 1990s, the average monthly enrollment in the program had steadily risen, punctuated by only brief and minor declines in the caseload. In 1962, an average of 3.6 million individuals per month received assistance from the AFDC program. By the end of the decade, that number had more than doubled to 7.4 million recipients per month. Total recipients peaked in 1994 with an average of 14.2 million individuals receiving assistance per month (DHHS 1998, 15).

Since that time, the average monthly number of recipients has fallen precipitously. As of the end of 2015, approximately 3.1 million individuals were receiving assistance per month (DHHS 2016). However, the way caseloads are measured underwent a fundamental change with the passage of the PRWORA, which makes the decline in participation an understatement. Under AFDC, states were required to report both cash and noncash assistance (in-kind support). Typically, two-thirds to three-quarters of state funds were spent on direct cash assistance under AFDC, with the remaining balance going to various types of in-kind support. Today, less than a third of the spending under TANF is cash assistance, yet the federal government requires states to report caseload numbers regarding only this kind of assistance (Ziliak 2015, 18). Not only does this reporting requirement allow for a significant understatement of the number of people receiving TANF benefits, but it has created a situation whereby individuals

further up the income ladder are receiving assistance from a program really meant to help the truly destitute. As Ziliak (2015) details, while only the very poor are eligible for direct cash assistance, the requirements for receiving noncash aid tend to be much more lax.

Further, though TANF theoretically creates a floor below which consumption cannot fall during times of hardship,⁷ it also creates incentives for marginal potential recipients to consume more and save less than they otherwise might. All states set limits on the gross and net income a potential beneficiary can have, as well as a liquid-asset limit and a limit on the market value of their vehicle. As Hurst and Ziliak (2006) empirically demonstrate, both the presence of a consumption floor and the existence of asset tests create disincentives to save among the set of individuals who may need TANF assistance in the future. What's more, since the passage of the PRWORA in 1996, many states have liberalized their asset tests (and six states have abolished asset testing altogether), which reinforces the disincentive to save.

Additionally, as Hughes and Tanner (2013) show, the effective tax rate on earned income is well in excess of 100 percent, once the value of all programs are taken into account for low-income beneficiaries. That is to say, under a variety of assumptions, for each additional dollar a beneficiary earns, they lose more than a dollar in benefits. Though the work requirements of the PRWORA have tried to overcome this barrier to upward mobility, because TANF is just one in an ecology of programs, these perverse effects serve to reinforce one another.

⁷ As Edin and Schaefer (2012, 2015) explore, many of the very deep poor are not helped by these programs, so the floor does not totally prevent destitution.

Finally, and perhaps most damagingly, a variety of loopholes allow states to sidestep the requirement that at least 50 percent of their beneficiaries be employed in thirty or more hours of “work-related activities” to receive their federal grant. For one, the definition of employment is extremely fluid and broad. It includes such activities as “unsubsidized employment, subsidized private or public sector employment, on-the-job training, job search and job readiness assistance (for a maximum of 6 weeks), community service programs, vocational educational training (12 months maximum), and education directly related to employment for recipients without a high school diploma or equivalent” (Ziliak 2015, 12). Though nineteen states require potential beneficiaries to actively be engaged in job search when they apply for benefits, federal law allows people twenty-four months within which to find jobs. States can also earn “caseload-reduction credits” by, for example, reducing the number of individuals receiving direct cash assistance. Consequently, despite the 50 percent employment requirement, in fiscal year 2010, thirty-eight states had obtained enough caseload-reduction credits that their effective work-participation rates were below 25 percent (DHHS 2014).

V. How Expanding Opportunity Better Helps the Poor

Due to the significant knowledge and incentives issues inherent in the current TANF program, a natural question to ask is how to best help the least well-off in society without simultaneously creating these perverse outcomes. Across space and time, the best way of allowing people to escape poverty has been economic growth. Consequently, it seems that enacting policies that make working more attractive (or repealing policies that

make work less attractive) would be a better way to achieve TANF supporters' goal of self-sufficiency.

V.A. Historical Context

For most of human history, as McCloskey (2010) details, humans around the world lived on about \$3 per day, give or take a dollar. Starting around the time of the Industrial Revolution, wealth around the world began to increase dramatically. People in developed countries now live on twenty to thirty times that amount; and even people in most less-developed countries live on at least ten times that amount. This does not even account for the vast improvements in the quality of what people can purchase with that money.

Though economists may disagree on its causes, they overwhelmingly agree that economic growth is the best vehicle for helping the poor achieve a better standard of living (Deaton 2015; Acemoglu and Robinson 2012; Landes 1998; Phelps 2013; Mokyr 1990, 2012). When trying to disentangle the ultimate causes of economic growth, institutions occupy the foreground in most of these accounts: policies come and go, but institutions are much more deep seated (Williamson 2000). While there may be a place for policies such as TANF to alleviate immediate hardship, achieving the long-term goals of the TANF legislation requires not getting the policies right, but rather creating an environment conducive to growth. Certainly, it is a harder political sell; but if history is to be our guide, it is a necessary step for moving people out of dependence on government programs and into sustainable, self-sufficient, flourishing lifestyles.

Traditionally, as explored in Phelps (2013) and Mokyr (1990, 2012), jobs for low-wage, low-skilled workers emerged spontaneously, through endogenous innovation. An environment conducive to experimentation and risk taking caused innovation to flourish in highly dynamic times such as Medieval Europe, the Industrial Revolution, and the United States in the early 1900s. Both norms (or informal institutions more generally) and policy supported entrepreneurs in their endeavors. Rich nations became rich not by exploiting the poor, but by creating opportunities for even those on the margins of society. Allowing opportunities to emerge simultaneously helps the poor by providing them with ways to earn a living, and sidesteps the knowledge and incentive problems inherent in public-aid provision.

According to Phelps, the dynamism that characterized the United States' rapid economic growth from the late 1800s through the mid-1900s was significantly hampered by the expansion of the social-welfare state in the early 1960s. Between 1964 and 1965, President Johnson launched the bulk of what would become known as the Great Society programs and expanded many existing programs, including TANF's predecessor—the Aid to Families with Dependent Children program. Though the seeds for this expansion had been laid during the Progressive era, the 1960s were a key inflection point in the history of the welfare state. And according to Phelps, “while the rate of innovation fluctuates, it has been subdued most of the time over most of the business sector since the early 1970s” (2013, 264).

V.B. What Holds Back Opportunity Today

If experimentation and ground-level innovation are what traditionally have created prosperity—or “mass flourishing,” to borrow a phrase from Phelps—then policy that focuses on fostering them is preferable to policy that restricts this sort of dynamism. Giving people reasons to want to work has a track record of success that simply mandating work cannot match. Even if the work requirements of the PRWORA raised employment above what it would otherwise have been, that would not mean it was successful policy in terms of its stated purpose of decreasing dependency on public aid. One must always keep in mind that there are unseen consequences to any course of action. In this case, politicians and interest groups spent countless hours agitating for work-encouraging welfare reform, when that time could have been spent agitating for arguably more beneficial reforms, such as alleviating burdens on small businesses so they could afford to provide more opportunity to those without jobs.

The minimum wage is one of the biggest burdens on businesses and is holding back low-skilled, low-income Americans from breaking into the labor market. In a recent comprehensive review of the minimum-wage literature, Neumark and Washer conclude that “the preponderance of the evidence points to disemployment effects” (2007, 121). They go on to say that “when researchers focus on the least-skilled groups most likely to be adversely affected by minimum wages, the evidence for disemployment effects seems especially strong” (ibid). Burkhauser and Sabia (2005, 2) found that those earning three times the federal poverty level were the most likely to benefit from a proposed minimum-wage increase, with little to no impact on the pay of those below the poverty level. If those with low skills are effectively priced out of the labor market, even if they can

qualify for TANF benefits in the short term, they will be unable to meet the work requirements in the long term. If the TANF program fails to meet the needs of the most vulnerable families, its usefulness as a safety net is doubtful. In contrast, allowing employers to pay workers below what is currently the minimum wage would create incentives for them to take a gamble on people whom they might initially perceive to be a bad investment. Further, when the supply of potential workers is greater than the demand, as is the case with the current system, employers can be discriminating about whom they hire. If employees can compete not only on quality but also on wage, then it is likely that some of those workers who are currently detached from, or only marginally attached to, the labor force will be enticed to reemploy their skills.

It is also well documented that dynamism in the United States is on the decline. A 2015 Gallup report found that the United States ranked twelfth among developed nations in the rate of startups per capita (Clifton 2015). Not only are we behind other countries in terms of business births, but we are ahead in terms of business deaths. Indeed, in 2008, business deaths outpaced births for the first time since Gallup started recording this figure. As Decker et al. (2014) detail, startups are an important component of a vibrant labor market since they account for approximately 20 percent of gross job creation. High-growth businesses account for another 50 percent of gross job creation, and many high-growth businesses also tend to be young (2014, 3–4). Other measures of business dynamism have been declining too. Davis et al. (2010), for example, use the Bureau of Labor Statistics' Business Employment Dynamics data and find that job flows have increasingly slowed. Davis, Faberman, and Haltiwanger (2012) use the Bureau of Labor

Statistics' Job Openings and Labor Turnover data and find that not only is the decline in hires greater than the decline in job creation, but the decline in the pace of job separations is greater than the pace of job destruction. In a labor market where people are reluctant to hire and fire, it is very difficult for those with a spotty work history—which characterizes many TANF recipients—to get a job.

Many have pointed to the onerous costs—both tax and regulatory—imposed on employers as a major reason why dynamism is dwindling. One way to understand this trend is by looking at the World Bank's *Cost of Doing Business Index*. Though the United States ranks seventh in the world in ease of doing business, it currently ranks forty-ninth in the world in terms of starting a business—down from forty-fourth in last year's report. Further evidence for this trend can be found in the *Economic Freedom of the World Report (EFW)*, in which the United States has seen a 19 percent decrease in its business-regulation score since 2000, meaning business regulation has become more onerous. The administrative-requirements subcomponent of the *EFW*'s index has fallen almost 50 percent, and the bureaucracy-costs subcomponent has fallen nearly 70 percent. When businesses face high regulatory burdens, they are less likely to expand; and when those looking at starting a business see the high costs, they are less likely to undertake this type of activity.

Finally, the size of the safety net is itself a barrier to the type of dynamism that has historically characterized the US experience. Phelps points to the expansion of welfare-state programs in the 1960s as a harbinger of economic decline because these programs dampened individuals' incentives to work and be entrepreneurial. As Steurele

(2015) shows, marginal tax rates can be above 60 percent for families who receive government benefits, particularly when they receive benefits from multiple programs. What's worse, this positive implicit rate remains even for families with incomes two or three times the federal poverty level, due to slow phase-out rates. Under some assumptions, the implicit tax rate can reach above 100 percent once you consider expenses such as transportation and childcare, which mothers and families must undertake when moving into the workforce, choosing to work more hours, or choosing to accept a higher paying job. Consequently, even people who might otherwise be willing to engage in grassroots experimentation and innovation are disincentivized to do so.

VI. Conclusion

If the aim is to encourage employment and independence, encouraging grassroots innovation and creating an environment in which people act to contribute to the economy is key. Phelps cogently makes this argument. According to Phelps (2013, vii), "prosperity on a national scale ... comes from broad involvement of people in the processes of innovation: the conception, development, and spread of new methods and products." Prior to the advent of the modern welfare state, our economic system flourished because millions of people were actively interested in finding self-expression through meaningful work and meeting challenges. The modern welfare state has not only changed the incentives of individuals, but the norms surrounding participation in economic life. As Congress debates extending work requirements to other social programs, it is important to recognize that these types of requirements treat only the symptoms of mass disengagement from the workforce and dependency on aid programs. In this chapter, I

explored how one well-intentioned method for breaking the cycle of dependency was misguided and how this problem can more effectively be solved by encouraging opportunity rather than enforcing work requirements.

Falling caseloads are not the only way to measure the success of a program; a fuller measure of success is whether it accomplished the goals it set out to accomplish. While the poverty rate did fall throughout the late 1990s, reaching 11.3 percent by 2000, it has rebounded to almost 15 percent currently (CPS 2015). Additionally, some evidence suggests the number of people living in deep poverty—defined as making incomes less than half the federal poverty level—has risen since the passage of welfare reform in 1996 (Shaefer and Edin 2013). Much of the increase in deep poverty is due to the difficulty of obtaining public assistance if you are unable to work at all, and it is difficult for all to find work in a market where opportunities for low-income individuals simply are not emerging. As Himmelfarb (1991) elucidates, throughout history it has mostly been the laboring poor who are helped by government-led antipoverty efforts; only economic growth has allowed the very poor to escape poverty. If history provides us with any roadmap for poverty alleviation, economic growth matters much more than government spending programs.

SAMARITAN’S DILEMMAS, WEALTH REDISTRIBUTION, AND POLYCENTRICITY

I. Introduction

In the United States, it is estimated that one in three individuals are currently receiving aid from some type of federally administered welfare program (Eberstadt 2015). The federal government provides funding for 126 different programs specifically for low-income people, with 72 of these programs providing either cash or in-kind benefits directly to individuals (Tanner and Hughes 2013, p. 3). Since President Johnson declared the War on Poverty in 1964, the US has spent more than \$19 trillion on anti-poverty programs, with essentially no change in the officially measured poverty level (Tanner and Hughes 2014).⁸ This last fact surely indicates that there is a serious institutional problem with our system of aid provision in the U.S.

It is a natural human inclination to desire to help those in need. Setting aside government-provided aid, private charitable giving in the United States was more than \$358 billion in 2014 (Giving USA 2015), and 64.5 million adults volunteered 7.9 billion man-hours to charitable activities (Corporation for National and Community Service 2015).⁹ Yet the indiscriminate extension of aid to those in need often induces moral hazard; that is to say, it entices individuals to act differently than they would in the

⁸ However, the lives of the vast majority of those counted as “poor” in the U.S. have improved, as documented in Tanner and Huges (2014) and Rector and Sheffield (2011).

⁹ <https://www.volunteeringinamerica.gov>

absence of the transfer. This situation is illustrated clearly by Buchanan's (1975) examination of the Samaritan's dilemma, and with Marciano (2014) appraising the subsequent literature from the standpoint of possible Pareto efficiency. Buchanan builds on the biblical narrative of the Good Samaritan, who finds a poor traveler beaten and left to die on the side of the road. In the biblical story, the Samaritan comes to the man's rescue, nursing him back to health before heading on his way. According to Buchanan, this illustration is incomplete. If the Samaritan acts non-strategically, he may achieve a result that is undesirable from his point of view. While the Samaritan may sustain great personal benefits from helping the poor traveler, if aid is given unconditionally it can create incentives for the recipient to behave parasitically. Further, once one person is given aid, others may begin to modify their patterns of action to increase their chances of receiving aid, too. According to Buchanan, 'we may simply be too compassionate for our own well-being or for that of an orderly and productive free society' (1975, p. 71).

In the traditional theory of public finance going back to Musgrave (1959), it has been nearly universally claimed that redistribution can only be carried out effectively by national level governments. Public finance theorists are concerned with how government uses real resources – how it allocates them, and the utility impact this has on citizens (see Rosen and Gayer 2008 for an extended discussion). While the individual is the focus of examination, it is the construct of the 'representative individual' that occupies the foreground of this type of analysis. Redistribution, in this context, is often justified on the presumption that it is a public good, as illustrated by Hochman and Rogers (1969). Theirs is a construct of Pareto optimal redistribution, in which high income individuals receive

utility from alleviating the low consumption opportunities available to low-income individuals. In this construct, raising the utility of those with low-incomes is the end of the story. It is simply assumed that monetary transfers will result in a better standard of living for the poor. Yet once we move beyond the analytical environment of traditional public finance, we are forced to confront the reality of the particular responses individuals have to the receipt of aid, the unintended consequences of this receipt, and the question of how aid might plausibly be provided without inducing these types of unintended consequences.

Musgrave's assertion that redistribution can effectively be provided only at the central level follows from the logic of collective action. If redistribution to the poor and downtrodden is provided at the local level, it is plausible to expect that some localities will offer higher levels of aid than will other localities. It doesn't matter whether this higher aid is induced by higher income in those localities or stems from greater generosity among the high earners of those localities. Either way, some localities will offer higher aid than others. However, this may induce some aid-seeking individuals to move from low-aid to high-aid places. In order to overcome this problem, many argue that redistribution must be carried out at the national level.

A problem not seriously grappled with by those who follow this line of thinking is that the consumers of aid are not the same as the purchasers of these services, within the current institutional framework. Hence, the feedback mechanism that generally disciplines market activity may be inoperable. The purchasers are the taxpayers and the consumers are those who receive benefits. Even if consumers are unhappy with the

service, or if taxpayers view it as needlessly expensive, or if the expense of providing it is becoming unreasonable, little may change because the providers of the service are not disciplined by any strong feedback mechanism. The producers in this setting are, of course, the bureaucrats who administer the programs, and the legislators are those who vote to expand or enact various programs. Yet in this setting they are at best agents, albeit agents who are only tangentially beholden to the taxpayer-principals in this setting (see Buchanan and Devletoglu 1970 for an explanation of this problem within a university setting). While informal mechanisms, such as associating aid-receipt with slothfulness, may serve to overcome the principal-agent problem at a local level, when aid is provided centrally many of these informal disciplining mechanisms disappear.

In this paper, we propose a different orientation from which to examine questions of redistribution. Though figuring out how to overcome Samaritan's dilemmas is frequently discussed in the academic and policy literature on redistribution, as Wagner (1989, p. 155-98) exemplifies in his comparison between political and market organization of transfers, we introduce two concepts that are not generally present in these discussions: polycentricity and co-production. We explore the various ways in which monocentric and polycentric arrangements alternately discourage or promote coproduction in social welfare programs. With monocentric arrangements, whether they are administratively centralized or decentralized, there is a person or office that has the final word in offering or withholding aid. This is the world of national redistribution. In contrast, polycentric arrangements have no position of a last resort provider of aid. If there is no aid provider of last resort, then no individual provider is responsible for

making what can be a life-or-death decision for potential recipients. With respect to co-production, we explain how polycentricity will more effectively elicit co-production by the recipients of aid than will monocentricity. Interaction among the Samaritan's dilemma, co-production, and polycentricity reverses the implications of the standard analysis of redistribution, and shows how aid may successfully be provided at the local level. Not only can aid effectively be provided at the local level, but it may be able to overcome some of the most serious negative consequences associated with centralized aid provision. After we explore these concepts and their relevance for 'social policy,' we shall examine some particular illustrations and applications of our thesis.

II. Charity, Futurity, and Redistribution

The Samaritan and his dilemma can be generalized or universalized by recognizing that it speaks to a widespread quality of human nature to render assistance when coming across instances of need. While need is typically objectified through such measures as percentages of median income and poverty indexes, it ultimately resides in the affective sentiments held by some people toward the observed situation of others in society. A needy person is thus someone whose observed situation activates sympathetic feelings from other people in society. We do not, however, think charity is an apt description of those feelings because it pertains to the instant of observation and does not extend to possibilities beyond the moment of observation. These possibilities are expressed by the notion of futurity. While purely charitable impulses may certainly exist, in which the donor gives aid without any expectation of a behavioral change on the part of the recipient, generally donors prefer that their assistance help the recipient achieve a

better trajectory for his or her life. That is to say, the donor wants to enhance the recipient's future prospects; this is what we mean by 'futuraity'.

Hayek, in volume two of *Law, Legislation, and Liberty* (1976), describes how life outcomes are determined in part by skill and hard work, and part by sheer luck. It is this element of luck that allows him to justify a minimal welfare state, in order to ensure that those who are down on their luck don't fall into destitution. With the right set of incentives in place, a minimal safety net can indeed encourage individuals to rely on aid only when needed, and for only as long as needed. Yet this set of incentives is difficult to design. While donors may want to assist those who are temporarily disadvantaged due to an unfortunate set of circumstances, it is nearly impossible *ex ante* to distinguish between those individuals who will use the extension of aid to improve their future prospects and those who will use it to support a slothful lifestyle. Few donors would want to help the latter for any extended period of time, but many would be willing to assist the former. Though the distinction between the deserving poor and the undeserving poor is seldom publicly acknowledged in modern times, the notion still exists that some individuals are more deserving of our sympathies than are others. Even if the actual distribution of empathy in society varies widely, it is undeniable that the sight of people in need often invokes sympathetic responses to render comfort and assistance in some degree.

Though donors typically expect recipients to have a different future in response to receiving aid, our public redistribution system has created a situation whereby the donors are totally removed from the recipients. In the US, as in most developed nations, social welfare programs are funded through taxes. Specialized bureaucracies are then allocated

a specified amount of money to spend on their respective aid programs. While there may be a great many people working in these bureaucracies who are genuinely concerned about the futures of the individuals they are assisting, they are trapped in a situation where by law they must provide assistance to all individuals who meet a specified set of criteria. Indeed, because a large bureaucracy lacks the knowledge necessary to understand the particular situation of each aid recipient, the only set of criteria they can use when doling out aid is the simple set of one-size-fits-all benchmarks they are given. It is thought worse to commit a type I error than a type II error, so aid ends up on the hands of those who will squander it, in addition to those who will use it to get back on their feet. Consequently, our modern-day system of social assistance has almost completely divorced the achievement of specific life outcomes from the provision of aid.

Donors have not always been so far removed from the recipients of aid. As Olasky (1992) documents, the early American model of compassion held that giving indiscriminate aid was as damaging as was turning a blind eye toward the poor. Indeed, prior to the late-1800s the very word ‘compassion’ had a different meaning than it does today;¹⁰ originally, compassion meant ‘suffering with’, and required that any person trying to help the poor must be intimately acquainted with the particulars of that person’s condition. These early providers of relief believed that the key to helping people out of destitution required an examination of the whole person; moral shortcomings needed to be addressed along with physical and economic shortcomings. This theme is also explored by Himmelfarb (1991). Without using the term, the narratives Olasky and

¹⁰ As Olasky (1992) documents, the late 1800s saw the rise in social work as a profession, in contrast to what is now described as social work being a volunteer activity or even a calling.

Himmelfarb tell about early forms of relief provision support our contention that successful aid provision requires some level of co-production.

III. Coproduction and the Avoidance of Accidents

It seems often to be assumed that people are naturally provident and hard-working, so being in positions of need is a result of chance or limited capacity, and not a product of choice (Friedman 1953). The offer of aid, however, can increase the number of people in a position to need aid. This is a simple consequence of moral hazard. Further, if the institutional environment is structured correctly, it matters little whether people are naturally provident and hardworking or not. As long as the structure of incentives entices people to be hardworking, their natural proclivities are of little consequence. An institutional environment that is both polycentric and encourages coproduction may allow providers of aid to determine *ex ante* which potential recipients will use the aid to invest in their futures, versus those who are merely attempting to increase their leisure time.

There is a well-developed economic theory of accidents that is directly relevant for relating co-production to these questions of charity, futurity, and polycentricity. This theory notes that there are not only direct costs to accidents, but also costs to avoiding accidents. While there is controversy over whether automobile accidents rise with increases in vehicle speed *per se* or rise with increases in the variance of the speed at which cars are traveling (Lave 1985), there is no doubt that automobile fatalities could be nearly avoided if everyone were to drive at no speed higher than, say, 20 miles per hour. That no one wants to drive so slowly involves an acceptance of risk so as to arrive at

destinations more quickly. Regardless of the relation between speed and accidents, there are also various actions drivers and carmakers can take that would increase or reduce the risk of accidents. A manufacturer can produce a car with such features as air bags and shatter-resistant windshields. Highways can be built in various ways with different safety qualities engineered into their construction. For instance, four lane roads are safer than two lane roads, though they are also more expensive. Whatever forms of safety is embedded in those cars and highways, safety is nonetheless a matter of co-production between drivers and the builders of cars and highways. It is well recognized that the construction of cars with more safety features will reduce the care that drivers take because these features allow people to feel safer when they are driving more recklessly (Peltzman 1975). Cars do not harm people; people driving recklessly in cars harm people. If the incentives are appropriately aligned to encourage people to drive more safely, fewer accidents will result. This is what we mean when we say that safety is a matter of coproduction.

Being in a position of need is similar to being in an accident. While both destitution and accidents may be partially attributable to unforeseeable, random circumstances, they are also to a significant extent outcomes of choice. Henry Fawcett's (1871) tale of Robinson and Smith in *Pauperism* helps to illustrate this point. In Fawcett's story, both gentlemen were blue-collar workers who entered adulthood with similar skills and in similar occupations. From that common point of departure, their lives diverged due to different choices they made and actions they took. Robinson performed his job conscientiously, was frugal in his spending, and spent time studying to become

eligible for higher-paying positions. In contrast, Smith performed his job in so-so fashion, did not devote time to preparing to secure higher-paying positions, and instead spent all of his earnings, much of it on amusement. By the time both reached retirement age, Robinson was well-to-do and had accumulated a good sum of capital through his saving during his working years. Smith had accumulated no capital through saving, and retired at a similar earnings level to where he began.

Though Fawcett's story focuses on the life choices each man makes, it is possible to incorporate some degree of chance into the narrative. We can imagine a scenario in which an economic downturn hits and both men lose their jobs due to layoffs unrelated to their performance. However, as with the literature on the economic theory of accidents, there are steps that each man can take to minimize the chance that serious economic harm befalls him in this circumstance. For example, immediately after being laid off, we can imagine Robinson actively trying to find a new job, perhaps studying for a new certification so he can shift into another, less-vulnerable occupation. We can imagine Smith taking the job hunt less seriously, sending out a few resumes, but spending much of his time enjoying his newly-found leisure. Though both men were laid off through no fault of their own, it is highly likely that the steps Robinson takes will allow him to find a new job before Smith.

An outside observer, or a strict follower of the orthodox approach to public finance, who is unfamiliar with these particular details may conclude that Smith was a candidate for aid and that Robinson was someone who reasonably could provide such aid. To be sure, Smith's utility could have been raised by reallocating some of Robinson's

earnings to him. Yet by the very structure of the story, Smith could have achieved a similar outcome had he been willing to act similarly to Robinson.

This simple story powerfully illustrates why coproduction is important if we expect aid meaningfully to change a recipient's future. Robinson and Smith were both eligible for unemployment benefits when they were laid off, but only Robinson used them as they are meant to be used – as short-term measures to help a person avoid destitution while looking for a new job. The provision of aid *by itself* cannot change a person's future. Yet the provision of aid coupled with a sincere desire to succeed can result in a positive outcome. For the most part, public assistance programs operate by giving what are effectively gifts to recipients. It is easy for governments to spend money. This is something they do well, meaning that account balances are emptied by the end of the fiscal year. In contrast to this setting for redistribution, co-production would enlist participation by the recipient of aid in developing capacities that would obviate the need for aid in future years. But how might co-production be activated? Our thesis is that the prospects for its activation are stronger when aid is organized in polycentric fashion than when it is organized in monocentric fashion.

IV. Polycentricity, Monocentricity, and the Problem of the Helper of Last Resort

A national system of support is monocentric. With a monocentric arrangement, there is a 'helper of last resort'. Normal human sentiments being what they are, someone in the position choosing between offering aid and letting someone starve (or suffer a similar fate), is highly likely to offer aid. In this respect, it is reasonable to conceptualize a representative Samaritan as facing three options in relation to a potential recipient of

aid, recognizing that the Samaritan is thinking in terms of present values over some relevant future. A reasonable preference ordering for the Samaritan is as follows: (1) the recipient becomes self-supporting, (2) the recipient subsists on aid, and (3) the recipient starves or suffers a similar fate. The Samaritan would dearly love (1) to result while having no stomach for being responsible for (3). The outcome of this situation will be (2), unless the recipient has a strong desire to achieve (1) and avoid (2). In this situation, though, it is the recipient and not the Samaritan who controls the recipient's future state.

Why can't the Samaritan induce unwilling recipients (perhaps call them Slackers) to become self-supporting rather than subsisting on aid? The answer is that the monocentric Samaritan cannot make a credible commitment that would induce the Slacker to pursue a self-supporting way of life. The Samaritan might wish the Smiths he faces would act like Robinsons, but he has no tools to bring this outcome about. The only tool he has for accomplishing this is to let some of the Slackers starve, which would induce the other Slackers to change their pattern of activity. Misery, in this case, would have both a didactic purpose and a clear social function. We may doubt, however, whether the Samaritan's sensibilities would allow such action. The mere existence of a position of aider of last resort places responsibility for what are effectively life-or-death decisions on the holders of that position. Normal human sympathies are surely likely to choose life, thereby leading Slackers to subsist on aid rather than becoming self-supporting.

With polycentric arrangements, however, there is no helper of last resort. With localized, overlapping jurisdictions of assistance, there are many sources of assistance but

no single helper of last resort. Polycentricity reduces the ability of Slackers to game the system because the Samaritans are no longer makers of life-or-death decisions. For instance, a local aid office can tell the Smiths in the locality that to receive aid they must show up for work punctually, and be suitably dressed. Moreover, they must exhibit courteous demeanor toward co-workers and customers. The imposition of such requirements when pursued over some duration of time might even convert some Smith-types into Robinson-types. Those requirements would in any case appear to be credible to the Slackers because the local group of Samaritans is not responsible for the Slacker's fate. Polycentricity accommodates the imposition of conditions on aid which promotes co-production. Hence, the Samaritan's dilemma can explain how redistribution can be carried out effectively only at local levels of government, contrary to what Musgrave and subsequent public finance theorists have tended to hold.

A polycentric system of aid provision, it should be noted, would improve outcomes for both recipients and donors. If a potential recipient is unwilling or unable to meet the particular conditions imposed by one provider, he can choose to apply for aid with a different provider. Let's say the donor agency in the first system requires its recipients to work 40 hours a week, and provides access to a list of service-sector jobs to help them achieve these goals if they are unable to find a job. Continuing the illustration, let's say the donor agency in the second system requires its recipients to work only 30 hours per week, but provides access to a list of manual labor jobs. In this case, the potential recipient can choose which option is most attractive to himself, and the donor agency can encourage coproduction under the terms it finds most attractive.

V. Illustration and Application

Coproduction has been shown to be a successful way to overcome collective action problems in a variety of areas. In Nigeria, the creation of urban infrastructure is guided by the people who will be using it, thereby ensuring it will be useful to those it is intended to benefit (Ostrom 1996). In many areas, the cooperation of the community with the public police force has yielded a higher level of protection than policing without community involvement. In this case, instances that may have been conflictual in the past turned into situations of cooperation (Ostrom et al. 1978). The delivery of health services, too, has been shown to benefit from a higher level of participant involvement (Dunston et al. 2009). If participant involvement in both private and public affairs has been shown to produce broadly beneficial outcomes, then there is reason to believe that coproduction in aid to the disadvantaged will yield similar results.

Ultimately, however, whether coproduction in the provision of public aid will yield beneficial results is an empirical question. Consequently, we find it useful in this section to examine an example of a set of private programs that employ extensive use of coproduction in their anti-poverty efforts, as compared to federal programs that do not aim to use this tool. It should be mentioned at the outset that understanding the success of private initiatives is somewhat complicated, given that private initiatives exist within the same ecology that includes public alternatives. Consequently, it might be the case that the individuals who select themselves into these private programs already have an active desire to improve their socioeconomic situations, as compared to those who opt for the public alternative. In the context of our illustration, however, this seeming difficulty has some advantages. For one, it helps us understand the necessity of coproduction in

improving life outcomes among the economically disadvantaged. If it really is the case that those who are most eager to change their lives enroll in the private alternatives, and if these private programs do actually help encourage upward mobility, then we have some evidence for our claim that encouraging coproduction will help overcome Samaritan's dilemmas. Secondly, because these private organizations do not have to act as helpers of last resort, but instead operate within an ecology of aid-providing enterprises, this helps us to understand how imposing conditions on aid receipt can be beneficial for both the donor and the recipient.

The problem with many centrally-administered programs is that they are often by necessity (due to resource constraints) one-size-fits-all in nature. The Temporary Assistance for Needy Families (TANF) program, for example, provides monetary aid to anyone who meets a pre-specified set of criteria. Yet the reasons any individual can give for being down on his luck differ from person to person. A program that is able to understand on a fundamental level why an individual is poor to begin with can muster a fuller set of tools to help him get back on his feet. This is what the nonprofit Nurse-Family Partnership program aims to do.¹¹

The Nurse-Family Partnership was founded in 1977 by David Olds, who had recently received his PhD from the Cornell School of Human Ecology. Olds was intensely interested in how understanding the networks within which an individual resides are important for understanding both their internal constitutions and life

¹¹ The information on the Nurse-Family Partnership is pulled primarily from two sources. Goodman (2006) provides much of the historical information. A comprehensive literature review by the Coalition for Evidence-Based Policy (2014) provides much of the statistical information.

outcomes. He understood that breaking the cycle of intergenerational poverty and dependency on aid programs required a holistic approach which got to the root of what made these individuals poor in the first place. Olds decided to recruit 400 low-income families in Elmira, NY to test his method, assigning half to his treatment group and half to a control group. Families in the treatment group (which consisted mainly of single mothers and their children) were visited on a regular basis by trained nurses, who would help disentangle the socioeconomic challenges facing these young mothers, and work to determine a plan for building a better future. The control group received transportation to a local center and were given free screening services, prenatal care, and well-child care, but were not visited by nurses, and were not assisted with determining a better path forward. Olds and his research team were careful to ensure that the demographic characteristics and socioeconomic statuses were similar between the two groups

The effects of the program were evaluated in 1986, then again once the first-born child of the women in the study reached age 15-19. In the first round of evaluation, the incidence of child neglect was significantly lower in the treatment group than in the control group. Mothers in the treatment group were also more likely to have given up smoking cigarettes, and were less likely to have pre-term deliveries than mothers in the control group. The long term effects, however, show the real power of this holistic approach. Mothers who received nurse visits spent 20% less time on welfare than women in the control group, were 19% less likely to have unplanned subsequent children, reported 61% fewer arrests, and 72% fewer convictions than women in the control group. The effects on the first-born children of these women were also startling; they were 48%

less likely to abuse their own children, 57% less likely to be arrested, and 66% less likely to have been convicted of a crime than children born to control group mothers (as of age 19). While there were no discernable effects on educational or work outcomes in the Elmira group, subsequent repetitions of this controlled experiment in Memphis and Denver did find positive long-term impacts on performance in school, and development of beneficial lifetime skills, which was particularly pronounced amongst children born to mothers with low cognitive abilities and/or mental health.

Certainly, the mothers who chose to enroll in these experiments did so because they actively wanted to improve their prospects for achieving a better life. Yet this is surely the case for mothers in both the treatment and control groups. It was the active element of coproduction between the visiting nurses and the low-income mothers that allowed these mothers to create better lives for themselves and their children.

This program can be sharply contrasted with the experience of most states under the TANF program mentioned above. With the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) by President Clinton in 1996, TANF replaced the Aid to Families with Dependent Children program, which had provided cash grants to low-income families since it was put into place as part of the 1935 Social Security Act.¹² TANF did impose conditions on aid receipt that had not previously existed, including work requirements and five-year total lifetime limits for recipients. It also ceased the reimbursement structure that had operated during the AFDC years, and instead gave block grants to the states to encourage them to economize on their

¹² Originally, the Aid to Families with Dependent Children program was called the Aid to Dependent Children program. The name was changed in 1962 to reflect the changed focus of the program.

anti-poverty spending. Within this framework, states were granted wide latitude to design their own programs, so long as they met the criteria imposed upon them at the federal level.

Though the PROWRA did encourage states to design their own welfare systems within the boundaries set by Congress, ultimately the welfare system still operated monocentrically, and programs generally were not incentivized to experiment with any sort of coproduction. Since funding was contingent on hitting specified performance targets and incorporating federally-determined provisions, states were incentivized to design their systems to maximize their federal funding. Further, states were disincentivezed to push responsibility for running these aid programs down to lower levels of government, since they would risk losing federal funding if some localities failed to meet these prespecified goals.

This reorganization of the welfare system under the PRWORA was based on states' earlier experience with obtaining waivers out of the federal welfare system throughout the late 1980s and early 1990s. This was a period in which the welfare rolls had swollen to an unprecedented level, and states were granted wide latitude by the Department of Health and Human Services (DHHS) to conduct experimental, demonstration, or pilot programs, so long as these programs were subject to rigorous evaluation.¹³ By the time the PRWORA was passed in 1996, the DHHS had approved waivers for 45 states for both state and local pilot programs. However, incorporating the

¹³ The 1962 amendments to the Social Security Act allowed states to apply to the DHHS for an exemption from the AFDC rules in order to conduct pilot programs. However, these waivers were not widely used until the late 1980s.

success of these smaller-level programs into a centralized scheme removed the flexibility that had made many of these pilot programs successful in the first place.

Throughout the late-1990s, it appeared that the 1996 welfare reforms had achieved great success. The number of families receiving benefits fell, as did the number of unemployed single mothers – and this took place without any commensurate rise in the number of people living in poverty. This led many to declare that welfare reform had been a success. Yet when the economy began contracting in the early 2000s, many of these positive trends began modestly reversing course. It continues to be an open debate as to whether the positive trends of the late 1990s are primarily attributable to the strong economy or to welfare reform.

This debate, however, is misguided. Though the reforms allowed the states some latitude to design their own programs, the overall system of aid still had a monocentric structure, with the federal government occupying the apex of that system. While the particular details of the welfare programs differed among states, those programs were nonetheless constrained by what the federal government proscribed. More significantly, states were disincentivized to allow competing jurisdictions to emerge at the local level, so they could not effectively encourage coproduction between givers and recipients of aid.

Yet co-production is occurring regularly between private, small-scale providers of aid and local recipients. Both secular and religious organizations work closely with those to whom they provide aid to ensure that recipients' futures are better than their pasts. The problem, however, is that many recipients would prefer to seek aid from organizations

that simply hand out funds with no strings attached. Because these small-scale organizations exist in the same social ecology as government aid programs, many recipients find the latter to be more attractive options to alleviate their current wants. With the right incentive structure, many who currently subsist on aid would be willing to become productive members of society. The current structure simply does not encourage self-sufficiency in the same way that a polycentric system would.

VI. Conclusion

Wagner (2010) makes a distinction between raising and leveling as alternative conceptual frameworks for thinking about issues of social welfare. The distinction lies in how it is that the general welfare of the population is promoted. A system of taxation and redistribution necessarily aims at leveling; the implicit assumption is that the welfare of the population can be improved by ensuring that incomes significantly higher than the mean are redistributed to those with incomes significantly below the mean. Our alternative framework aims to raise the position of the least well off without altering the position of those who are already relatively well off. To do this requires recognition that doing this entails a system based on co-production between suppliers of aid and recipients. Such a system, moreover, is sustainable only if it is polycentric, for then there is no single supplier of aid to face ultimate responsibility for what the aid supplier would regard as a life-or-death choice.

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BIOGRAPHY

Meg Patrick Tuszynski is a PhD candidate in the economics department at George Mason University, and is currently working as a Research Associate at the O’Neil Center for Global Markets and Freedom, located on the beautiful campus of Southern Methodist University. Prior to joining the O’Neil Center, Meg was the Program Coordinator for the Spending and Budget Initiative at the Mercatus Center. Meg also spent three and one-half years as a Mercatus PhD fellow before going to work for Mercatus full-time. During that time, she had the privilege of acting as research assistant to both Chris Coyne and Tyler Cowen.

Meg’s research interests are diverse, but include topics broadly within the Austrian, Public Choice, and New Institutional frameworks. Her current work includes two main tracks. One track examines the evolution of public and private provision of aid in the United States. This includes an examination of both the formal and informal institutions which have shaped the current structure. The second track examines economic freedom in the United States, specifically trying to figure out what factors influence the growth and/or shrinkage of economic freedom among the states.

She earned her MA in economics at George Mason in 2015, and a dual BA in philosophy and economics from the same school in 2011. Outside of work, she enjoys all manners of outdoor activities – especially adventures on which she can take her dog. She also enjoys reading, trying new athletic activities (boxing was her most recent endeavor), and making healthy, great-tasting home cooked meals. Above all, Meg enjoys spending time with her family, whether that involves watching Maverick’s basketball on the couch with her husband, or taking long vacations to the Outer Banks with her parents and siblings.