CALIFORNIA IDEAS IN ACTION

GOOD INTENTIONS:
How California's Anti-Poverty Programs Aren't Delivering and How the Private Sector Can Lift More People Out of Poverty

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Key Points

- California has the highest poverty rate in the country, according to the Census Bureau's Supplemental Poverty Measure.
- More than one in five California children live in poverty.
- Causes of poverty include the perverse incentives of anti-welfare programs, the state's housing crisis and its poor business climate.
- California's poor need public policies that allow economic opportunities to flourish.
- Private charities do a better job of alleviating poverty than public programs.

Introduction

When Americans think about poverty in the United States, they see in their minds the destitution and despair that is often found in Mississippi, West Virginia, Arkansas, and New Mexico. By comparison, California should be another world. It's a coveted destination that has attracted millions because of the opportunities and its promise of prosperity. It's the home of rich celebrities, technology barons, world-class entrepreneurs, and the uber-wealthy who live on its coasts and in elegant canyon homes. Yet California has a poverty problem. It is arguably the poorest state in the country, posting an average poverty rate of 14.5 percent from 2014 through 2016, the Census Bureau reports, ranking it 16th among the states. Under this calculation, almost 5.7 million Californians live in poverty.[1]

But a more telling gauge from the Census Bureau shows the rate is 20.4 percent,[2] highest in the nation by 1.6 percentage points, over those same three years, and well above the 14.7 percent national average.[3] The Census Supplemental Poverty Measure "extends the official poverty measure by taking account of many of the government programs designed to assist low-income families and individuals that are not included in the current official poverty measure." This means the number of Californians living in government-defined poverty is closer to 8 million.[4]

> Yet California has a poverty problem. It is arguably the poorest state in the country ... almost 5.7 million Californians live in poverty.

The three-year average is an improvement over 2012's rate, which was a 23.8 percent average from 2010 through 2012,[5] still the highest in the nation. The three-year average from 2009 through 2011 was 23.5 percent.[6] The 2016 rate is slightly improved over the 2015 rate of 20.6 percent for the years 2013-15.[7] The series of Census data show that California has had the highest supplemental poverty rate on every occasion that the Census Bureau has compiled the measure.

Census' Supplemental Poverty Measure is important not only because it considers the dependency on government programs, it also considers geographic differences in the cost of housing, as well as expenditures on utilities, both of which, as we will see later, are quite high in California.

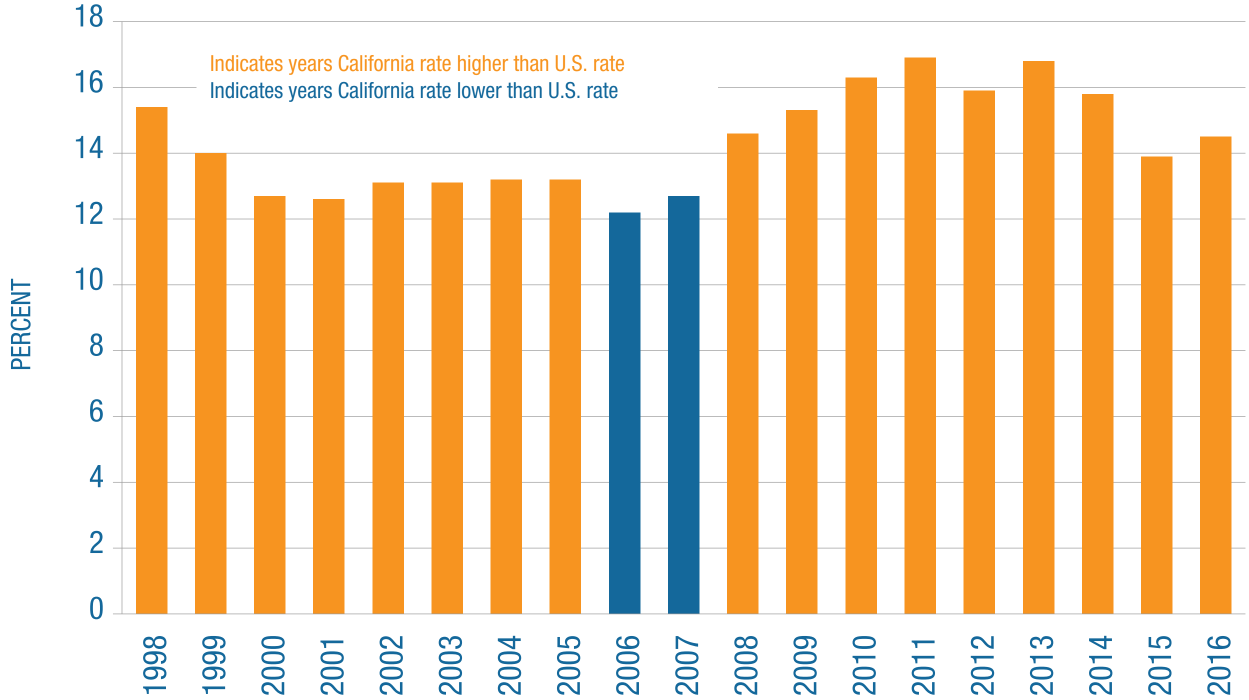
Similar numbers have been produced by research from a joint project of the Public Policy Institute of California and the Stanford Center on Poverty & Inequality. According to the project's California Poverty Measure, 21.8 percent of Californians were poor in 2011, the first year of the CPM.[8] In subsequent years, the rate was: 21.3 percent in 2012; 21.2 percent in 2013; 20.6 percent in 2014;[9] and 19.5 percent in 2015, the most recent year available.[10]

In this paper, the Pacific Research Institute will look at California's current poverty climate, review the causes and efforts to reduce poverty, evaluate California's anti-poverty programs, examine policies in other states that have successfully reduced poverty, and offer policy recommendations. The paper will also include examples of private alternatives to government anti-poverty programs that are already in operation and successfully lifting people out of poverty.

History of Poverty in California

Since 1992, combined California state and local governments have spent nearly $958 billion through 2015 on public welfare programs, including cash assistance payments, vendor payments and "other public welfare," according to the U.S. Census Bureau.[11] But all those outlays have not ended poverty or even reduced it. When the spending began, California's poverty rate was less than 16.4 percent.[12] By 2015, it had fallen to 13.9 percent, but the rate had grown to 16.9 percent in 2011 and 16.8 percent in 2013.[13] The fact that it is on the rise again (see chart) does not help the case of those who believe that greater public spending will eliminate poverty or even reduce it to tolerable levels.

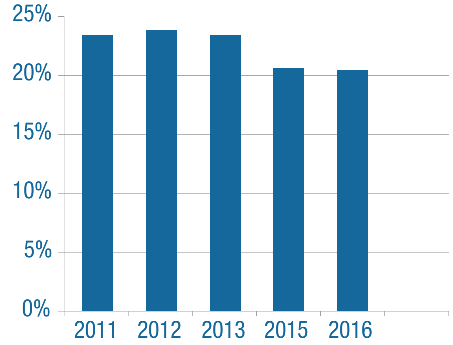
Chart 1: California Poverty Rate Among Highest in Nation



Source: U.S. Census Bureau

Chart 2: Supplemental Poverty Rate Shows State Has Nation's Highest Poverty Rate

*** There was no Supplemental Poverty Measure in 2014 due to a survey redesign.**

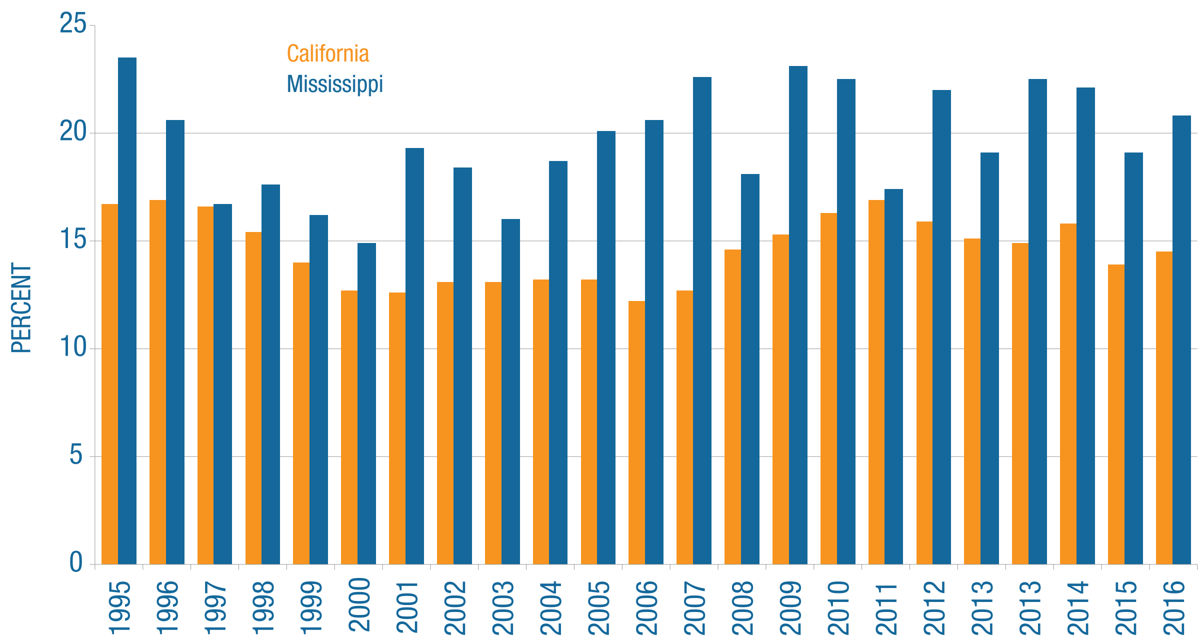


Source: U.S. Census Bureau

For decades, Mississippi has been the standard for defining extreme poverty under the conventional measurement. Nearly a quarter there were poor in 1980 and three years later 27 percent were below the poverty line.[14] Conditions improved after the federal welfare reform in 1996, but relative to the rest of the nation, Mississippi has remained poor. The state's conventional poverty rate had fallen below 20 percent by 2015, to 19.1 percent, but only New Mexico had a higher rate at 19.7 percent.[15]

Conversely, California has historically posted relatively low poverty rates in some years. Under the conventional measure, it has bounced between a low of 12.2 percent in 2006 to a high of 16.9 percent in 2011 over the last two decades.[16] California's rate was higher than the national rate in all but two years – 2006 and 2007 – but it never ranked lower than Mississippi.

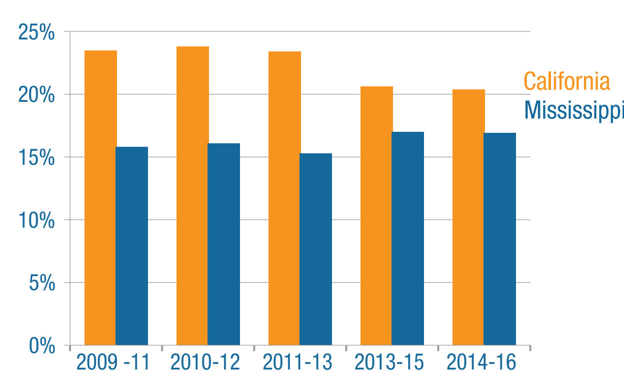
Chart 3: Conventional Poverty Rate - California vs. Mississippi



Source: U.S. Census Bureau

Chart 4: Supplemental Poverty Measure

* Methodological changes in the way the Census Bureau tracks poverty where changed and resulted in two separate estimates for 2013.



However, under the Supplemental Poverty Measure, California's average poverty rate from 2014-2016 was 20.4 percent, measurably worse than that of Mississippi's 16.9 percent average over that same period.[17]

The Public Policy Institute of California and the Stanford Center on Poverty & Inequality's California Poverty Measure indicates that the highest county average rate for the years 2013 through 2015 was 24.9 percent in Los Angeles County; second highest for those years was in Santa Cruz County, which recorded a rate of 24.8 percent.[18] Placer County, which extends from just northeast of Sacramento to Lake Tahoe's northwestern shores, had the lowest rate at 13.1 percent.[19] Inland Empire counties Riverside and San Bernardino registered more modest rates than some might expect, 19 percent and 18.7 percent respectively, as did other interior counties, such as Kern (18.9 percent), Imperial (18.8 percent), Kings (10 percent) and Stanislaus (17.6 percent).[20]

Living under the poverty line in otherwise moneyed zones poses some unique challenges. The cost of living is higher, due in large part to expensive housing, and in part due to higher commuting costs, and it drains the poor's already-scarce resources.

"In Santa Barbara, poverty is different, and in some ways tougher," Joe Matthews, co-author of *California Crackup: How Reform Broke the Golden State and How We Can Fix It* says. In Santa Barbara, and other wealthy areas, the cost of living is "much higher" and "you're more likely to be able to get a job, and even a job that pays more than you'd make in the (Central) Valley." Yet a person would fall far short of what's needed "to cover housing, medical bills and other expenses that add up to a high cost of living. And your higher income might make you ineligible for safety net programs that would help."[21]

Living under the poverty line in other-wise moneyed zones poses some unique challenges.

California Child Poverty. More than one in five (21.2 percent) California children lived in poor families in 2015, according to government measures.[22] The California Poverty Measure, however, reported the child poverty rate 2015 was 21.6 percent before falling to 19.9 percent in 2016.[23] Surprisingly, child poverty was second highest in affluent Santa Barbara County, averaging 28.8 percent from 2013 to 2015; the highest rate – 29.8 percent – was found in Santa Cruz County.[24] Child poverty in another pocket of wealth, Monterey, where the exclusive Pebble Beach golf courses and the exclusive Carmel-by-the-Sea are located, was also high at 27.3 percent.[25] The lowest child poverty rate – 11.8 percent – was in Placer County.[26]

The joint project of the Public Policy Institute of California and the Stanford Center on Poverty & Inequality also reported that "all told, 46 percent of children in the state were poor or near poor."[27]

That same California Poverty Measure estimated that in 2011, fully one-fourth of California children lived in poverty,[28] almost half again as high as the pre-recession 17.3 percent of 2007 that is considered a "recent low."[29]

According to Sarah Bohn, research fellow at the Public Policy Institute of California, both the highest and lowest rates of child poverty in the state are in the same county – Los Angeles – and are less than 20 miles apart. The lowest is found in the affluent South Bay enclave that includes the cities of Manhattan Beach, Hermosa Beach, and Redondo Beach. The highest is in the southeastern section of the city of Los Angeles and east Vernon.

Causes of Poverty

There are multiple causes of California's poverty problem. Some are distinct to California, others are simply part of the larger government effort to decrease and eliminate poverty. They include unaffordable housing and energy costs; perverse anti-poverty policies that make the poor worse off; and diminished economic opportunities caused by high taxes and heavy regulation.

Despite decades of policy efforts to decrease poverty, it continues to plague a growing number of Californians. Meanwhile, California's wealthy prosper. This has created what economist Arthur Laffer calls an "hour-glass economy."

> "It describes a situation where the fortunes of the well-off continue to improve and the number of impoverished increases – leaving fewer in the middle. . . .
>
> "The correct prescription for California is the same as it always is for any people looking to prosper: Tax people less, make it easier to establish and operate businesses, roll back regulations that increase the cost of basic living expenses – fuel, housing, food, utilities and so on – and give both individuals and organizations the incentive to call California home. These are the economic basics of success, and California lawmakers would do well to learn them.
>
> "California's current path has led to one of the highest costs of living, the worst poverty rate and the most burdensome business climate in the country. This is not how states succeed, and it is certainly not the stuff of which comebacks are made."[30]

The "hour-glass" squeeze on the economy has left the middle thin. And it might grow thinner still. Laffer has noted that "while California was once a haven for the middle-class, attracting middle-class families to the state has become difficult. Homes are too expensive, taxes are too high, the public schools are failing, the roads so damaged that commuting is an even bigger nightmare than ever. And what's Sacramento's response to the appalling road conditions? Higher taxes, of course."[31]

> "Worse is the fact that middle-class families and workers are leaving in large numbers. We know from Census Bureau data that more than half, about 54 percent, of California's out-migration is adults 40 to 54 and their children. Another 17 percent is from recent college graduates and adults 25 to 39.
>
> "If California can't attract more middle-class families from other states, and keep those already here, the state will eventually be home to only the ultra-rich and the miserably poor."[32]

Poor Public Policy. Rather than improving the plight of the poor, government policies have kept tens of millions in poverty. This is in part due to the perverse incentives created by the policies. Anti-poverty programs, for example, have traditionally encouraged parents to remain unmarried by providing attractive benefits to single parents that couples don't receive. This led to a decline in marriage, which, Robert Rector of the Heritage Foundation, says "remains America's strongest anti-poverty weapon."[33] This is particularly true in California, where families headed by single parents are more likely to be poor. Data show that in 2014, 38.5 percent of California single-parent families lived below the poverty level.[34] This is more than five times the 7.5 percent poverty rate for married-couple families.[35]

The average California family living in its own home spends more than one-fourth of its income on housing while renters spend 36 percent of their incomes on housing.

California tried to address this problem in 1994 with its "wedfare" program. Working much like "workfare," – which requires recipients to work or participate in job training to receive benefits – the program allowed poor mothers to continue to take in welfare benefits if she returned to her spouse or married. But, according to a 2015 *Weekly Standard* article, "nothing much came of these initial attempts to soften the marriage penalty because, with the enactment of the 1996 federal welfare reform, caseloads fell across the country and the issue became moot."[36]

Welfare programs also tend to encourage recipients to not work, which is self-defeating, as employment, like marriage, is a strong anti-poverty weapon. In fact, "less than 3 percent of Americans who work full-time meet the government's definition of poverty," Catholic University professor Jay Wesley Richards wrote in "The Welfare System's Perverse Incentives Undermine Self-Sufficiency."[37] Unfortunately, "the vast majority of welfare programs," writes Richards, "fail to promote work."[38]

Housing. The state's crushing housing crisis leaves many Californians with fewer resources available to apply to other needs.

> "For decades, California's housing costs have been racing ahead of incomes, as counties and local governments have imposed restrictive land-use regulations that drove up the price of land and dwellings," Wendell Cox, senior fellow at the Center for Opportunity Urbanism, noted in 2015.
>
> "Housing costs have risen in some markets compared to others that the federal government now publishes alternative poverty estimates (the Supplemental Poverty Measure), because the official poverty measure used for decades does not capture the resulting differentials."[39]

The average California family living in its own home spends more than one-fourth of its income on housing while renters spend 36 percent of their incomes on housing.[40] This strains resources to the point that not enough is left after paying for shelter to meet other needs.

"Housing is the biggest factor" contributing to poverty, Bohn says. "When we compare our measure, which accounts for how living costs factor into poverty, with the official measure, it is the major challenge low-income families face."[41]

Businesses are also leaving the state for locations where taxation and regulation are less burdensome.

Business Climate. California has been named the worst state in which to do business for 12 straight years by *Chief Executive* magazine.[42] In the Pacific Research Institute's *50-State Index of Small Business Regulation*, California also ranked dead last in terms of small business regulation.[43] The state was given an "F" in the "2016 Small Business Friendliness Survey" conducted by Thumbtack, a web service that matches customers with small-business professionals.[44] It was the fourth time in the last five years that the San Francisco-based startup failed the state – in 2013 it gave California a "D."[45]

Businesses are also leaving the state for locations where taxation and regulation are less burdensome. Joe Vranich, president of Spectrum Location Solutions in Irvine, says that from 2007 through 2015, as many as 9,000 companies have abandoned California, moving to states where they can save from 20 percent to 35 percent in operating costs.[46]

California's substandard business climate – it was ranked 29th by the American Legislative Exchange Council's 2017 "Rich States, Poor States" for economic performance from 2005 to 2015 – has resulted in diminished economic opportunities. The state's economy is the sixth largest in the world, but because of its narrowed economic prospects, it's "short about 1 million jobs and 1 million persons employed," says the California Policy Center.[47] And conditions are not likely to improve soon. The ALEC report ranks California 47th in its economic outlook rankings, a spot lower than its 2016 ranking and three lower than in 2015.[48]

When a hostile business climate motivates companies to leave the state and discourages others from locating or expanding in California, these "disinvestment events" negatively affect job availability and contribute to the poverty across the state. Conversely, business opportunities have powerful anti-poverty effects.

Energy Costs. In the same way that exorbitantly high housing costs take up a too-large portion of incomes, leaving less available for other necessities, steep energy costs contribute to financial hardship for many in California. This is known as "energy poverty."

A 2015 report from the Manhattan Institute said that "in 2012, nearly 1 million California households faced 'energy poverty' – defined as energy expenditures exceeding 10 percent of household income. In certain California counties, the rate of energy poverty was as high as 15 percent of all households."[49]

This is caused in part by electricity prices being driven higher by "the state's renewable-energy mandates and carbon cap-and-trade program," which has been extended to 2030. The report's author expect costs will continue to rise and will do so "at an even faster rate in coming years."[50]

High energy costs act as a regressive tax. The tax is especially pernicious in counties "where summer electricity consumption is highest but household incomes are lowest," for instance in the Central Valley and other inland regions.[51]

The problem of "energy poverty" is likely to only grow worse as the state continues its effort to eliminate cheaper fossil fuels and use only renewable sources of energy. Policymakers further need to reevaluate their goal for the state to be fully powered by renewable energy by 2045.

Taxation. High taxes suppress economic activity and opportunity, which leaves a portion of the population less well-off. The Goldwater Institute reviewed state poverty rates from 1990 to 2000 and found that there is a relationship between taxation, government spending and poverty.

"Using data from the Census Bureau, the report found that states with the lowest tax rates enjoyed sizable decreases in poverty. For example, the 10 states with the lowest total state and local tax burdens saw an average poverty reduction of 13 percent – two times better than the national average," report author Matthew Ladner wrote in the *Christian Science Monitor*. "The 10 highest-tax states, meanwhile, suffered an average increase in poverty of 3 percent."[52]

California's poverty rate under the Supplemental Poverty Measure has been higher than Mississippi's since 2011, the year the standard was developed.

California was one of 10 states with the highest state spending per capita; those states averaged a 7.3 percent increase in overall poverty and a 4.5 percent increase in child poverty.[53]

In 2006, Ladner predicted that "California's high taxation has been so damaging to the economy that another increase like the one in the 1990s would result in poverty exceeding Mississippi's by 2010."[54]

He wasn't far off. California's poverty rate under the Supplemental Poverty Measure has been higher than Mississippi's since 2011, the year the standard was developed.

The relationship between government spending – and the taxation required to fund the spending – and poverty is maybe even more notably evident when narrowing the effect to just expenditures on poverty programs. Economists Lowell E. Gallaway and Daniel G. Garrett have observed that in the 11 years after Johnson's war on poverty was launched, "every 1 percentage point fall in the poverty rate was accompanied by a 50-percentage point increase in real public aid."[55]

> "What these observations suggest is that the relationship between public aid and the poverty rate is subject to the principle of diminishing returns.
>
> "This is a Laffer Curve type relationship, which is to say that while public aid initially decreases poverty, there eventually comes a point at which additional increases in public aid increase poverty."

Gallaway and Garrett were able to replicate and extend the results through 2010. As it turns out:

> "The greatest poverty-reducing effect occurs at $1,291 of per capita expenditures on public aid, which produces a 6.07 percentage point reduction in the overall poverty rate."
>
> But "by 2010, real per capita aid stood at $2,697 – a level that produces a 2.52 percentage point increase in the poverty rate.

In California, taxes to fund all government programs remain a problem. The Tax Foundation ranks California 48th in its 2017 State Business Tax Climate Index; it's been 48th since 2014. The state's corporate rate is 33rd and the individual income tax ranks dead last. It's 40th in sales tax.[56]

Another organization, the Small Business & Entrepreneurship Council, ranked California last in its Small Business Tax Index for the sixth straight year in 2017.[57]

Policymakers should scrap the entire state tax system, which, as pointed out by California State Controller Betty T. Yee, was "designed during the Great Depression . . . is outdated, unfair, and unreliable. It reflects economic patterns and demographics of the past."[58] Rebuilding the state's tax regime would create greater economic opportunity and foster economic growth.

Bureaucratic Interests. Finally, we must consider that bureaucracies themselves perpetuate the poverty cycle through their self-interest to expand their scope and authority. This practice is explained by "public choice economics." Eamonn Butler, from the Institute of Economic Affairs:

> "A further disturbing feature of government is that public officials also have their own interests. The American economist William A. Niskanen tried to identify the interests and objectives of bureaucrats in a 1971 book, *Bureaucracy and Representative Government*. He suggested that people in public agencies seek to maximize their budgets – which brings with it power, status, comfort, security, and other benefits.
>
> "And once the politicians have committed to a policy, bureaucrats can crank up the implementation budget, knowing that the politicians will not want the public humiliation of abandoning the project. The result is a larger and less efficient bureaucracy than electors actually want."[59]

A recent example comes from 2009, when Kevin Concannon, an undersecretary of food, nutrition and consumer services for the Obama U.S. Department of Agriculture who oversaw the federal food stamp program, actually celebrated increased rolls of food stamp dependents at a record rate. He told the *New York Times* that he wanted to see the program grow even faster. "We're mindful," he said, "that there are another 15, 16 million who could benefit."[60]

More to the California point, consider how the state's higher-education bureaucracy has increased its numbers:

> "For universities and many colleges, this is the age of administrative bloat. The Office of the president of the University of California has roughly two thousand employees – doing no teaching or research," economist Richard Vedder writes.
>
> "Over the last 10 years, at the California State University System, 'the growth in the number and compensation of management personnel significantly outpaced other employee types,' nonacademic according to the state auditor."[61]

Vedder continues:

> "For the year 2015, I added up the number of full-time employees in 'management,' 'business and financial operations,' 'office and administrative support,' and 'student and academic affairs' and compared that with the total number of faculty. There were 911,428 in the administrative category, far more than the 807,032 faculty (some not teaching).
>
> "Decision-making is done by administrators, who have not only seized opportunity but have ample motives to expand their own empires of underlings to do irksome chores."[62]

There is every reason to believe California's welfare bureaucracy behaves similarly. As economist Daniel J. Mitchell has noted, "we know the welfare state is good news for people inside government. Lots of bureaucrats are required, after all, to oversee a plethora of redistribution programs."[63] Nearly 40 years earlier, roughly 12 years after the War on Poverty began, Allan Brownfield, author and former White House and congressional aide, made a similar observation:

> "In the so-called 'War On Poverty,' for example, programs were not designed to give money to the poor, whatever the merits of that would have been, but, instead, to give money to people who were to provide 'services' to the poor.
>
> "The result has been that the only poverty such legislation corrected was that of its own employees.
>
> "Today, many thousands of well-organized individuals and groups have a vested interest in the continuation of many otherwise useless and costly programs. This is the 'Education-Poverty-Social Worker' complex discussed by many who do care about the poor."[64]

This isn't to say that every public employee working in an anti-poverty bureaucracy is part of the "Education-Poverty-Social Worker complex." Some have good intentions, just as some of the lawmakers who establish policy are motivated by the right reasons. Yet it's hard to deny that a bureaucracy as a whole has an interest in ensuring its survival, even if that means the bureaucracy's implied goal is never reached.

Education. Quality schools and numerous educational options typically means lower poverty. The poverty rate for adults 25 to 64 who have college degrees is 8.6 percent; it is 37.8 percent for those who failed to finish high school.[65] California high school graduation rates are in line with the national average. For 2016 the state rate was 83.2 percent, 8.5 percentage points higher than the class of 2010, which graduated 74.7 percent of students who began high school in 2006-07.[66] The U.S. rate for 2015 was 83.2 percent, 4.2 percentage points higher than 2011.[67]

Yet clearly the state's education system is failing a large portion of its "customers." *Education Week*'s 2017 "Quality Counts" report gives the state's education system a "C-" and ranks it ahead of only nine states.[68] WalletHub ranks it 40th.[69]

While some California children are thoroughly educated, others aren't receiving the same experience. A UCLA study has found that time is the primary problem. Teachers at high-poverty schools, as measured by the percentage of students receiving free or reduced-price lunches, spend nearly 10 fewer days during the academic year instructing students than teachers at low-poverty schools.[70]

According to the UCLA Blueprint, the study also found that:

> "Teachers in high-poverty schools were more likely to report that academic instructional time was eroded by problems with school facilities, lack of access to technology and libraries, classroom lockdowns, standardized test preparation, teacher absences and uncertified or insufficiently qualified substitute teachers.
>
> "Three to four times more students at high-poverty schools than at low-poverty schools struggled with unstable housing, hunger, lack of medical and dental care, and other social and economic stressors. Students at high-poverty schools faced a 39 percent chance that life problems would decrease their time for academic learning, in contrast to a 13 percent chance for students at low-poverty schools.
>
> "Teachers at high-poverty schools suffered more class-time interruptions caused by unplanned events, such as phone calls from the front office. For some, these disruptions consumed up to 30 minutes a day of class time."

A McKinsey & Company report published in 2009 found that the academic achievement gap that separates students of differing ethnic origins, income levels, and school systems "represents hundreds of billions of dollars in unrealized economic gains" and "cost the U.S. economy trillions of dollars a year."[71] Narrowing the gap between low-income students and the rest would have increased the GDP in 2008 by $400 billion to $670 billion, "or 3 to 5 percent of GDP."[72]

Better education outcomes are needed to reduce poverty, but spending more, a position many support, will not improve outcomes. U.S. per-pupil spending is the fifth-highest among Organization for Economic Co-operation and Development nations, yet America ranks 27th in math, 17th in reading, and 20th in science when compared to OECD countries.[73]

Better education outcomes can be achieved if parents are given more choice in which schools their children attend. They could place them in schools where discipline is enforced, leaving more time for instruction; where academics are favored over politics, ideology, and social engineering; where the environment promotes learning. Two-thirds of public school parents in California already favor vouchers that would provide them with school choice for their children.[74]

Regulation: Patrick McLaughlin, director of the Program for Economic Research on Regulation at the Mercatus Center has testified before Congress that "the costs of regulation can actually be regressive, meaning that the costs are disproportionately borne by low-income households."[75]

> "Regulations have regressive effects by increasing the prices of basic necessities, such as electricity, housing, and telephone services, which typically consume a larger share of the budget of lower-income households than of wealthier households.
>
> "Some types of regulations are associated with higher levels of income inequality, most likely because entrepreneurs at the lowest segments of the income distribution have relatively greater difficulty surmounting costly barriers to entry created by regulations."

Better education outcomes can be achieved if parents are given more choice in which schools their children attend.

California's regulatory regime is one of the worst, if not the worst, in the nation. *Chief Executive* magazine gave the state a score of 1.98 out of 10 in the "Taxation & Regulation" category of its 2017 best-and-worst states for business ranking.[76] No state scored lower and the previous year's ranking put California in last place.[77] One CEO surveyed by the magazine said California "government bureaucracies are 100 percent irrational and indifferent to the actual demands of running a business. They use fees to build more bureaucracy, which contributes absolutely nothing except allowing them to charge more fees and put more regulations in place."[78]

Overall, Pacific Research Institute Senior Fellow Wayne Winegarden ranks California as the worst state for regulatory burdens.[79] Policymakers must recognize how this obstructs economic opportunity and growth, and make an earnest effort to ease the regulatory burden if they want to improve the lives of the poor.

Empowering and Creating Opportunities for the Poor

Before there was an American republic, faith-based organizations had a significant role in caring for the poor. It's a model that must be made full use of and should be considered as the primary solution for reducing poverty.

Private charities are superior to government programs for at least two reasons. One, they can focus on individuals in a way that government simply cannot. Michael Tanner, director of health and welfare studies at the Cato Institute, explained this two decades ago:

> "Government regulations must be designed to treat all similarly situated recipients alike. Most government programs provide cash or other goods and services without any attempt to differentiate between recipients. The sheer size of government programs works against individualization. As one welfare case worker lamented, 'With 125 cases it's hard to remember that they're all human beings. Sometimes they're just a number.' "[80]

Two, as Tanner also points out, private charities are "more likely to focus on short-term emergency assistance than on long-term dependence."

> "Private charity provides a safety net, not a way of life. Moreover, it is far easier for private charities than for government to demand that the poor change their behavior: Governments often are hamstrung when they require recipients to stop using alcohol or drugs, look for a job or avoid pregnancy. Private charities are much more likely to offer individual counseling and monitoring rather than simply cut a check."[81]

Rather than continue to subsidize the poor, the goal should be to free them of the weight of anti-poverty programs, which trap recipients into a dehumanizing dependency. Private institutions should be the bridge to self-sufficiency. But that bridge leads to nowhere if economic opportunity, operating free from punitive taxation and heavy-handed regulation, isn't on the other side. The late economist John Blundell of the London-based Institute of Economic Affairs:

> "Empower the poor through upholding property rights and encourage responsibility. Discourage the build-up of large regulatory institutions likely to be avoided by the rich designed to keep the poor in place. Allow the market economy to thrive based on supply and demand, thus bringing all to a better quality of life."[82]

More specifically to California, economist Laffer writes:

> "Don't for a moment think that our highly progressive tax structure here in California helps the poor, the minorities, or the disenfranchised – it doesn't. Intuitively, it should be self-evident that if a government taxes people who work and pays people who don't work, there will be more people who don't work and fewer people who do work. The more workers are taxed and the more non-workers are paid, the more people there will be who don't work. It's as straightforward as one, two, three. The best form of welfare has always been and always will be a good high-paying job."[83]

Consider that the Supplemental Poverty Measure rate in the state with the greatest economic freedom – South Dakota, according to the Cato Institute[84] – is 11.4 percent,[85] a little more than half of California's 20.4 percent and one of the lowest in the nation. Meanwhile, California, 49th on the economic freedom list,[86] has the highest poverty rate.

Chart 5: Economic Freedom and Poverty Connection

STATES WITH MOST ECONOMIC FREEDOM	RANK	SUPPLEMENTAL POVERTY MEASURE
South Dakota	1st	10.2 percent
Idaho	2nd	10.8
Tennessee	3rd	15.5
Oklahoma	4th	13.8
New Hampshire	5th	8.7 (lowest in the nation)
California	49th	20.4 (highest in the nation)

Sources: Cato Institute "Freedom in the 50 States" report, U.S. Census Bureau

Empowering the Poor: Private-Sector and Non-Profit Anti-Poverty Success Stories

Real-life programs that are making a difference in turning people's lives around

Government bureaucracies are not equipped to adequately deal with poverty. They are unable to tailor aid to specific situations, and generally hand out dollars in an endless fashion without ever considering the root causes of poverty and trying to resolve them. Rather than break the cycle to poverty, they spin it faster.

Private organizations, however, are generally better equipped to serve, and able to make better decisions as to who truly needs help and who doesn't. Unlike government bureaucracies where the primary interest is not just to survive but to grow, private institutions are interested in actual results – moving the poor off dependency and into self-sufficiency. Private groups are also able to adapt where government cannot, to be simple where government programs are hopelessly complex. For instance, Michele Steeb, CEO of St. John's Program for Real Change in Sacramento, says there's no "mass production" at St. John's as there is in government programs – instead, there it's a "brick-by-brick process" in which each person is treated as an individual.[87]

St. John's Program for Real Change
Sacramento, California

St. John's Program for Real Change, which has six locations in Sacramento and is the largest homeless facility in the county, supports homeless women and children with "more than shelter and food."

"We provide the ability to rise above devastating, negative elements and achieve job-readiness and self-sustainability," St. John's says. "Entry into the program is limited, and each step is extremely rigorous. But those who see it through end up with rewarding, happy, and productive lives – for themselves, and for their children."[88]

St. John's began as a 30-day emergency shelter. But under CEO Michele Steeb, it became a 12- to 18-month program and assists those who complete it "change their lives permanently, and helps them never to have to return to poverty or homelessness."[89]

The shelter says its program has touched 30,000 lives across 30 years,[90] serving roughly 1,200 women and children each year.[91] A decade ago, 80 percent of its $1 million budget was publicly funded, says the *Sacramento Bee*. Today, public sources fund about one-fourth of its $5 million budget.[92]

Steeb told the *Bee* that the change was consciously made because, in the reporter's words, "public funding can come with rules that may hamstring the organization's ability to help clients."[93] Unconstrained by government strings, St. John's says it saves taxpayers $36,000 for each person served. In 2016, with 364 women and children served, total taxpayer savings was $13 million.[94]

In Fall 2016, the program broke ground for a new transitional housing facility in Sacramento large enough to accommodate 90 additional women and children a day. It opened during the summer of 2017 and almost immediately was at 90 percent capacity.[95] Steeb says as many as 320 women and children are served each day, with a waiting list of "200 to 300 women and children every single night."[96] But getting the women and children off the streets isn't the end of the long crawl out of poverty. It might not even be the beginning.

"Government tends to look at things in a one-size-fits-all way and right now in the homelessness world, that one-size-fits-all way is 'housing first,' and while we definitely believe there is a role of housing first, it is not for everyone. . . . We've seen that time and time again at St. John's."[97]

Steeb says a large majority of the women who utilize services at St. John's "have addiction issues," have suffered from domestic violence, have experienced mental illness and have criminal histories. About half lack either a high school diploma or GED.[98] Housing alone won't solve their poverty problem.

The first month of the program, says Steeb, is dedicated to helping the women "see what led them to this place." There's not "a lot of self-awareness on the part of our women when they first get here."[99]

"They know they need help, that they want something different from their lives. . . . So, we are really doing a lot self-awareness and mental health support."[100]

These are vital services and the sort of support that a government bureaucracy is simply incapable of delivering.

By the second month, the women begin employment training at one of St. John's restaurants or at its child development center. Many have never held a steady job, and some have never held a job at all. But within five to seven months, many have moved on to the job-search phase. Steeb says that 96 percent of the women who graduate from employment training are placed into non-subsidized jobs.[101]

The St. John's experience also includes classes toward a high school diploma; budgeting; finance; parenting; mental health and drug and alcohol classes; physical fitness sessions; and self-development classes. At between 12 and 18 months the clients are moving into their own housing.[102]

St. John's places requirements on its clients that government anti-poverty programs don't. It is structured, which is a new experience for many, and sobriety must be maintained. There are random, and sometimes targeted, drug tests. Failure doesn't mean expulsion from the program – rather it means increased support.[103]

St. John's says it saves taxpayers $36,000 for each person served. In 2016, with 364 women and children served, total taxpayer savings was $13 million.[94]

Sobriety is important to the program, Steeb says, because sobriety is necessary to raise children, to obtain and hold a job, to achieve self-sufficiency. But sobriety is not a condition for government aid and Steeb says that St. John's even forgoes some public funding because the program requires it.[104] This is another way private assistance is superior to public aid.

Porsche Island is one of St. John's many success stories. She and the program came together after Island escaped, with her 6-year-old daughter, from a "dangerous relationship," *Comstock's* magazine reported in 2016.[105]

"When Island started at St. John's, she needed help with critical skills such as parenting, money management and building healthy relationships. The first two levels at St. John's cover these issues and more," said *Comstock's*.[106]

Island completed the St. John's program and was hired by Wal-Mart. She earned, she saved, and she "was eventually able to move into her own apartment." She told *Comstock's* that "St. John's taught me how to budget and how to save money."[107]

Island is an example of the institution's belief that, according to Steeb, "give a man a fish and he eats for a day; teach him how to fish and he eats for a lifetime."[108]

"At St. John's, we believe that in order to create real, lasting impact, the change must start with the root causes of the larger issue," Steeb told the *Sacramento City Express*. "We . . . counsel and teach these women how to make a complete and dramatic transformation in their lives."[109]

Solutions for Change
Vista, California

Support for government anti-poverty programs usually goes like this: They are a hand up, not a hand out. But too often, the programs are hand-outs and the hand-up is forgotten. It typically requires a private institution, such as Solutions for Change in Vista, to halt the patterns that feed homeless and generational poverty.

"We solve it by ending 'the churn,'" says Paul Webster, director of strategic advancement at Solutions for Change. "We are a program that works to overcome poverty through addressing the root causes of poverty and homelessness."

The organization, which began services in 1999, has "successfully led more than 850 families and 2,200 children out of homelessness and back on their feet," Chris Megison, president and CEO of Solutions for Change wrote in the *San Diego Union-Tribune*.[110] The nonprofit organization rejects the premise of "permanent' taxpayer-supported housing" because experience has shown that "families in these programs experienced only temporary success because issues like employment, mental health and substance abuse" are not addressed by housing-first government programs.[111]

"This issue is about more than housing," said Megison "It's about saving the lives of kids and ending poverty and dependency. We know that the large majority experiencing homelessness can develop job skills, obtain work and pay for their own housing."[112]

Solutions for Change residents are required to complete counseling, take courses in financial literacy, and attend parenting classes. They learn leadership, are shown how to deal with anger, receive employment training, and eventually get a job. They also must be sober, which costs the nonprofit $600,000 a year in federal funds because it won't end "drug testing and other practices that conflict with housing first," the *San Diego Union-Tribune* reports.[113] The program provides "a 1,000-day college-like experience."[114]

Forbes says that "the nonprofit's approach is business-like."

"Staff members, volunteers and local faith leaders create both a safety net and a source of support and encouragement as homeless families struggle to get their lives back together after dealing with domestic abuse, drug and alcohol addiction, job loss or, as is often the case, some combination of all of the above."[115]

Nine of every 10 dollars expended by Solutions for Change are from private sources, says Webster. The private money is generated primarily by donations and "revenue from our social enterprise -- Solutions Farms." The bulk of that small slice of public money, about 85 percent of it, goes toward "existing shelter, plus care housing contracts through the county of San Diego," he says.

Solutions for Change's business plan "seeks to be 100 percent privately funded in the near future," says Webster. Yet the organization believes government still "has a role in subsidizing and supporting our programming by assisting with capital development and in investing in innovations such as new social enterprises."

Not far from the Vista campus is Solutions Farms, where clients are able to hone their job skills and from which the organization draws revenue on sales of vegetables, herbs and tilapia, sold at more than two dozen farmers markets in the region.[116]

"The farm provides a place that teaches work force skills, the opportunity to be purposeful and structure. We are growing more than produce – we are growing hope," says the FAQ section of nonprofit's website.[117]

The farm had a grand re-opening in March 2017 that cost $1 million. It was funded not by the local, state or federal government, but by the Alliance Healthcare Foundation, a San Diego-based organization funded by dividends and sales of assets which awards grants to nonprofits such as Solutions for Change.[118] [119]

Solutions for Change has been so successful that the "the federal government wants to hold it up as a model of how to effectively address poverty and family homelessness," says the *San Diego Union-Tribune*.[120]

The newspaper reported that Clarence Carter, head of the Trump White House's Office of Family Assistance, plans "to hold up the Solutions' model for possible use as a template for organizations regionally and perhaps beyond as a potentially good way to address family homelessness."[121]

"From everything that we have been able to glean — and we did tear up the floorboards on this," Carter told the *Union-Tribune*, "it is a model that serves homeless families well."[122]

Working Wardrobes
Orange County, California

When someone in a difficult situation needs a job, but is missing the vital necessities many of us take for granted, Working Wardrobes For A New Start can help.

Begun in 1991 as a one-day career makeover event for 67 women, Working Wardrobes, an Irvine-based non-profit, has become a critical source of support for more than 80,000 at-risk men, women, young adults and veterans.[123]

> "We offer comprehensive, professional career-readiness curriculum at no cost to clients," says the organization's literature.
>
> "Our career-based training – with services including career preparation and coaching, grooming and job placement and professional wardrobing empowers those facing serious life challenges to transform their lives. Our services are offered in an atmosphere of dignity with customized support from our compassionate staff and volunteers."

Founder and CEO Jerri Rosen says that at Working Wardrobes "we consider ourselves social entrepreneurs."

"More than 50 percent of our revenue comes from our social enterprises – six busy, profitable resale shops, workshops and wardrobing services that agencies pay fees for us to deliver to their clients," she said. "We have one very small federal grant and receive a considerable amount of revenue from private and family foundations. It's important to us to have local donors who we can build relationships with and who can witness our mission in action."[124]

The organization receives about 3,000 articles of clothing a week. Each piece is checked for quality. The clothes that aren't considered appropriate for employment opportunities are handed over to the Working Wardrobes' thrift shops and boutiques. Proceeds from their sale are used to fund the organization, with more than half of Working Wardrobes' annual budget generated through its boutiques and thrift shops.[125] Ninety cents of every dollar donated to the organization supports its client services, a feat not achievable by government programs.[126]

Rosen said the organization further sets itself apart from government programs because "private charities can flex and deliver services with far greater impact than government programs and if the government would fund more charities, many more lives would be saved and put on track. We believe in being resourceful and understand the value of both volunteerism and in-kind contributions – unheard of in the government grant world."[127]

Working Wardrobes partners with corporate sponsors that can help in a number of ways, including hosting a donation drive, underwriting fundraisers, hiring Working Wardrobe clients, and providing scholarships for clients that allow them to take advanced skills training courses.

Autobytel, an Irvine company, has a particularly close bond with Working Wardrobes, sponsoring the organization initially in 2011 and following up in subsequent years.

> "The employees in our company have been actively engaged in the community with non-profits for many years, but nothing has moved the hearts and souls of our employees like our partnership with Working Wardrobes," says Autobytel CEO Jeff Coats. "Our support happens in so many different ways that every employee can find a way to significantly contribute. Autobytel has made a major commitment to Working Wardrobes and I am proud to support their mission of strengthening families and community."[128]

According to ChristianVolunteering.org, Working Wardrobes' 2015 revenue was $4.4 million. Nearly $2.7 million was from contributions, and nearly $1 million came from sales. Only a little more than $290,000 was from government grants.[129]

Cory Vigil, a Navy veteran, told the *Orange County Register* last year that Working Wardrobes saved his life. After eight years as a gunner's mate and suffering from post-traumatic stress disorder, Vigil was always angry, "and his gung-ho military style of communication didn't quite work in the outside world," reported the *Register*. Vigil eventually divorced, was jailed for months after a fight, was fired from his parks and recreation job, and ended up homeless. Then he found Working Wardrobes.[130]

> "He was one of the first students in the customer service training program. There, he listened to himself speak and realized why others didn't want to talk to him, Vigil said.

> "Impressed by his progress, Working Wardrobes hired him as a staff member. Now he is the only person in the county with the veterans resource specialist title, he says, helping veterans like himself and even giving talks about his experience."

Vigil went on to acquire a second job and a house in Rancho Santa Margarita. Without Working Wardrobes, he told the *Register* "I probably would have been either incarcerated or, I don't know, addiction or even death, who knows?"[131]

Father Joe's Villages
San Diego, California

For nearly 70 years, Father Joe's Villages in San Diego have been helping those in need with housing, support services such as job-seeking, childcare, primary health and dental care, mental health, and addiction treatment. The organization also offers a community lunch line and assistance to children and youth in trouble.[132] It's 80 percent funded by private contributions, according to Charity Navigator.[133]

The goal is to empower the homeless and move them to self-sufficiency. Father Joe's Villages served nearly 1 million meals to 7,000 people in 2016 and houses 1,900 individuals on any given night.[134] The organization reports than 73 percent of its "clients who received targeted employment services in 2016 obtained employment" while "97 percent of clients who participated in our employment program increased their employability."[135]

In 2016:[136]

- More than 31,000 hot showers were provided and 4,000 loads of laundry cleaned.
- 828 clients moved into permanent housing.
- The addiction treatment program served more than 500 clients and provided more than 2,900 services
- The therapeutic childcare center provided almost 62,000 hours of childcare and 85 percent of the children from 3 to 17 increased their academic abilities and life skills through the program.

In 2015, more than 6,000 received medical care, which the organization believes saved "the city of San Diego more than $1.8 million due to decreased use of hospital emergency services and ambulances."[137]

Father Joe's Villages is planning to renovate about 2,000 motel rooms in San Diego County into housing for the homeless. The five-year project, Turning the Key: Unlocking a Brighter San Diego, will cost about $531 million, with the first units available in the middle of 2018. Though the bulk of the cost will be funded by government grants, $122 million will come from private sources.[138]

While government dollars will fund most of that project, Father Joe's Villages President and Chief Executive Officer Deacon Jim F. Vargas private donations are nevertheless at the core of the institution's mission.

"Government donations come with so many strings attached and a lot of times what the government wants to fund doesn't really match up with the needs of the clients," Vargas has said. "With private donations, these are donors who fall in love with the mission and know that we know exactly what these clients need and they trust us to get the job done."[139]

Charity Navigator gives Father Joe's Villages an overall score of 88.6 out of 100, an 83.88 for its financial health and a perfect 100 for accountability and transparency.[140] Those are standards that no government program could ever reach.

Lessons for California: Public-Private Partnerships in Other States

Private programs based in other states have also shown that non-government efforts are effective in breaking the poverty cycle.

America Works
Nationwide

This for-profit network of private companies established in 1984 to assist welfare recipients, has helped more than 1 million Americans find jobs.[141]

In congressional testimony, America Works Founder Peter Cove said that the organization is built on the proposition that "people on welfare can and want to go to work" and that "work combined with on-the-job training curriculum, designed by employers, not training in isolation, is central to" the effort of placing people in jobs. To ensure that clients retain the jobs they obtain, America Works "developed retention services for the first six months to provide counseling, on-the-job coaching, interventions to navigate workplace issues, and attach workers to a host of financial incentives."[142]

Cove, a "poverty warrior" from the political Left during the days of President Lyndon Johnson's war on poverty, recognized that the anti-poverty programs he was involved with "didn't seem to be working." What he found that did work was moving "people quickly into a job and help(ing) them stay in the job."[143] Work had to come first, before education and training.

America First works much like an employment agency that is dealing with people who have specialized needs, and not all are welfare recipients. Some are ex-offenders, homeless military veterans, and the disabled. Cove told *City Journal* that America Works was "the first company in the country to really force the government to pay for what they were getting."[144]

> "We went to the government and said we are a for-profit company, we only want to be paid if we deliver. If we get the person off welfare and they are in a job for a period of time, three months, six months, whatever, then pay us. And that was – they had never done that before. So our model is one to be paid for what we do and also to assist people once they get into a job."[145]

America First operates in 17 locations across the country, including two California cities, San Francisco and Fresno.

Georgia Works!
Georgia

One way out of poverty is to get off the streets. But for many – the chronically homeless, the frequently incarcerated – leaving the streets is a difficult task. A private organization in Georgia, however, has found a way to move these individuals off the street and into decent homes. Bill McGahan, chairman and founder of Georgia Works!, told the U.S. House Committee on Oversight and Government Reform that his group has "helped 311 men get jobs, remain clean and get an apartment" since it was founded in 2013.[146]

"Virtually all have not returned to prison," McGahan said, and "we have an additional 170 men in the program today, all working toward full-time employment."[147]

Though its clients participate in Medicaid, McGahan says Georgia Works! receives no federal or state funding.[148]

> "We don't take any government money; not that type of organization. We turn people who were sleeping on the grass by the Downtown Connector into taxpayers in under a year."[149]
>
> Georgia Works! Moves is a "a multi-step process takes men off the street, through referral or self-volition," according to Ross Coker of the Georgia Public Policy Foundation, "and puts them on a track of increasing responsibilities and learning that ends in a job."[150]

The clients are alcohol and drug tested, and are required to work, which can begin with jobs at the facility. Coker says they receive "lessons on appearance and self-care. Participants learn when and how to seek medical attention, get help obtaining a driver's license, and learn general job tips and etiquette to prepare them to go out on the job elsewhere."[151]

The journey from street to job can take six to 12 months. But Georgia Works! has succeeded because it can do what vast, cumbersome and impersonal government programs cannot: It personalizes its care, says McGahan.

> "We work with each client on the underlying cause of his problems, which is typically an addiction, past abuse, or a psychological problem. Each person is assigned to a case manager who they meet with daily."
>
> "A Georgia Tech study on Georgia Works! found that we saved our community $6 to $11 for every dollar invested in our program, mostly because our graduates don't go back to prison and recidivism drops like a stone."[152]

He suggests that federal and state governments can help by:

- Ending the practice of "taking away driver's licenses for anything other than poor driving."

- Understand the damaging effects of wage garnishments. "A man with a low hourly wage simply cannot support himself with significant wage garnishments, almost forcing him into 'under the table' jobs or illegal activity."

- Promoting "programs for returning citizens and homeless people like Georgia Works! that ready people for work, change bad habits, eliminate barriers, and provide employment opportunities."[153]

Aspire Movement
Alabama

The Aspire Movement, a faith-based, not government-based organization, strikes at poverty early. The group matches "godly men and women with fourth or fifth grade students to make a commitment to walk alongside of them building a long-term relationship that is mutually transforming," as Aspire mentors "typically spend on average five hours a month with their student."[154]

"Spending time" means attending "the student's world for lunches at school, tutoring sessions and 'hanging out' in their communities for various activities."[155]

"Mentors also bring the students into their world and communities for different activities that might be as simple as lunch at Chick-fil-A, a visit to Oak Mountain State Park or a trip to the movies," according to the Hoover Sun.[156]

> "We humbly engage in the lives of at-risk youth, making a long-term commitment to walk with them beginning in fourth grade through high school graduation," Jason Williams, executive director of the Aspire Movement, says.
>
> "Many well-meaning programs that focus solely on giving hand-outs, or as we like to refer to it in urban ministry – 'throwing turkeys over the wall,' only offer temporary relief for long-term, systemic issues and ultimately destroy dignity and work ethic while further perpetuating the poverty cycle. Being with an individual in poverty while offering hope and opportunity is far more important than doing something for them. Doing for creates dependency, cripples initiative and sets up a giver-recipient relationship, while being with fosters exchange and accommodation."[157]

Aspire is also a "non-governmental" organization that, like Georgia Works!, accepts neither state nor federal funding. It began during the 2011-12 academic year at a single school with 13 mentor/student matches; by the 2016-17 school year, there were 168 matches and 10 schools were participating.[158]

"While millions of dollars are funneled into unproven programs each year, Aspire uses the most valuable resource we have available, people and time," Williams says. "Mentors in the Aspire Movement have logged a combined 24,000 volunteer hours with over 100 children in the past four years creating relational stability and providing hope to the fatherless."[159]

More Lessons for California: Welfare Reform Success Stories from Other States

By the 1980s, public welfare programs had become targets of criticism from both parties. Wisconsin Republican Gov. Tommy Thompson became an early leader in the reform movement, laying a foundation in the latter half of the decade, as was Michigan Republican Gov. John Engler. By the 1992 presidential election, eventual winner Democrat Bill Clinton was promising to "end welfare as we know it." Four years later, with three former welfare recipients at the ceremony, he signed the federal Personal Responsibility and Work Opportunity Reconciliation Act that had been passed by the Republican Congress. The federal law, and efforts at the state level by Wisconsin, Michigan and others have shown that welfare reform can make a difference.

Wisconsin.

Before the 1996 federal welfare reform, there was Thompson's Wisconsin model. From January 1987 to January 1997, the state's welfare caseload fell by more than half (54.1 percent), a net reduction of 53,147 cases.[160] Over the same period, the national caseload increased 9.6 percent.[161] Merrill Matthews and Kristin A. Becker wrote for the National Center for Policy Analysis in December 1997:

> "In 1987 the state sent out welfare checks totaling $46 million each month; this year the figure is $21 million a month, a saving of some $300 million in 1997 alone.
>
> "Since September 1997, with the implementation of the Wisconsin Works (W-2) program, welfare caseloads have decreased by one-third and state officials estimate that by March 1998 the remaining two-thirds of welfare recipients will be working – every one of them will be doing something in return for a check."

By fall 1999, caseloads had "dropped 90 percent" and the child poverty rate had been "cut in half," according to Rector.[162] In 2001, he testified that the child poverty rate was still almost half of what it had been and by then Wisconsin had "one of the lowest rates of child poverty in the nation."[163]

Wisconsin's reform was based on "one simple premise," Thompson said, that is that "every person is capable of doing something."[164] When Thompson began to work on welfare reform, he invited welfare mothers to the executive mansion for lunch to find out why they were on welfare.

"From these meetings and from related research, we began to understand how government could help these families become self-sufficient," Thompson said. "The solution was not simply to hand them a check to cash and walk away. The solution was developing meaningful programs that could support them in their struggle for independence."[165]

Wisconsin's reforms included:

- **Learnfare**, enacted in 1987, required welfare recipients to ensure that their school-age children regularly attended school. Families with chronically truant children had their welfare payments cut.[166] Though it did not reduce welfare rolls directly, according to Rector, "it did have a symbolic importance, sending a clear message to both the bureaucracy and the welfare clientele that, for the first time, the government seriously intended to demand constructive behavior of welfare recipients and to sanction those who were derelict."[167]

- **Work First** began as a pilot program in 18 counties in 1994, was eventually named Self-Sufficiency First, and became the state's signature reform program in 1996. Thompson's "administration instructed county welfare directors to de-emphasize education and job training in the classroom and to concentrate on activities leading to immediate work," says Rector. The program "provided new applicants with counseling on the negative effects of dependence, offered short-term aid (such as car repairs) that might eliminate the need to enroll in AFDC (aid to families with dependent children), and required most new applicants to begin working in private-sector jobs or community-service jobs almost immediately after enrolling in welfare."[168]

- **Work, Not Welfare**, which required participants to find a job within 24 months or lose their welfare benefits, was piloted in two counties in 1995.[169] "It was the first program that absolutely required welfare recipients to find work, the first program that put into practice the philosophy that welfare was a temporary program, not a way of life," Thompson said.[170]

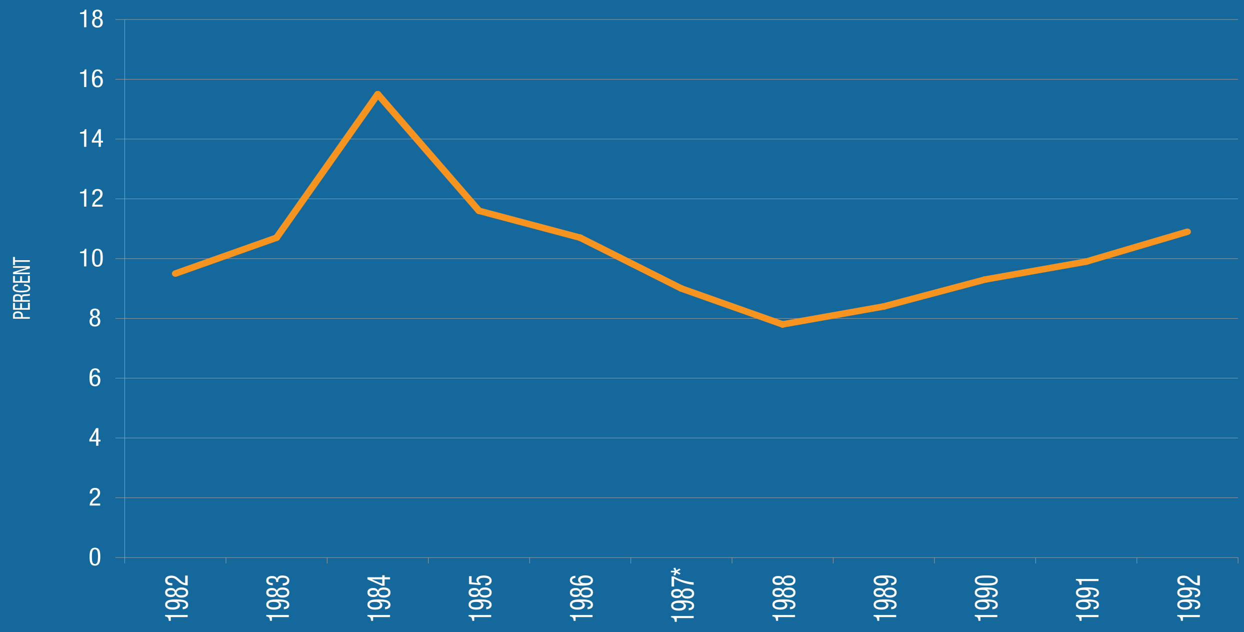
- **Pay for Performance** was another 1996 reform. It "closed the loopholes, creating for the first time a real work requirement for AFDC recipients," Rector writes.

> "Prior to PFP, a recipient who failed to obtain a private-sector job might be required to perform community service. If the recipient failed to actually perform this service work, however, the state could only cut AFDC benefits slightly. Under PFP, a recipient would see his welfare check reduced in direct proportion to the number of hours of community work he fails to perform." Those who didn't work would receive no AFDC nor food stamps.[171]

Despite the criticisms, Wisconsin's reforms have held up. After sharply falling in the previous decade by more than 54 percent due to the changes, caseloads in September 1998 were 10,185,[172] when the population was 5.23 million.[173] In March 2017, caseloads were 9,117[174] with the population having grown to 5.78 million.[175]

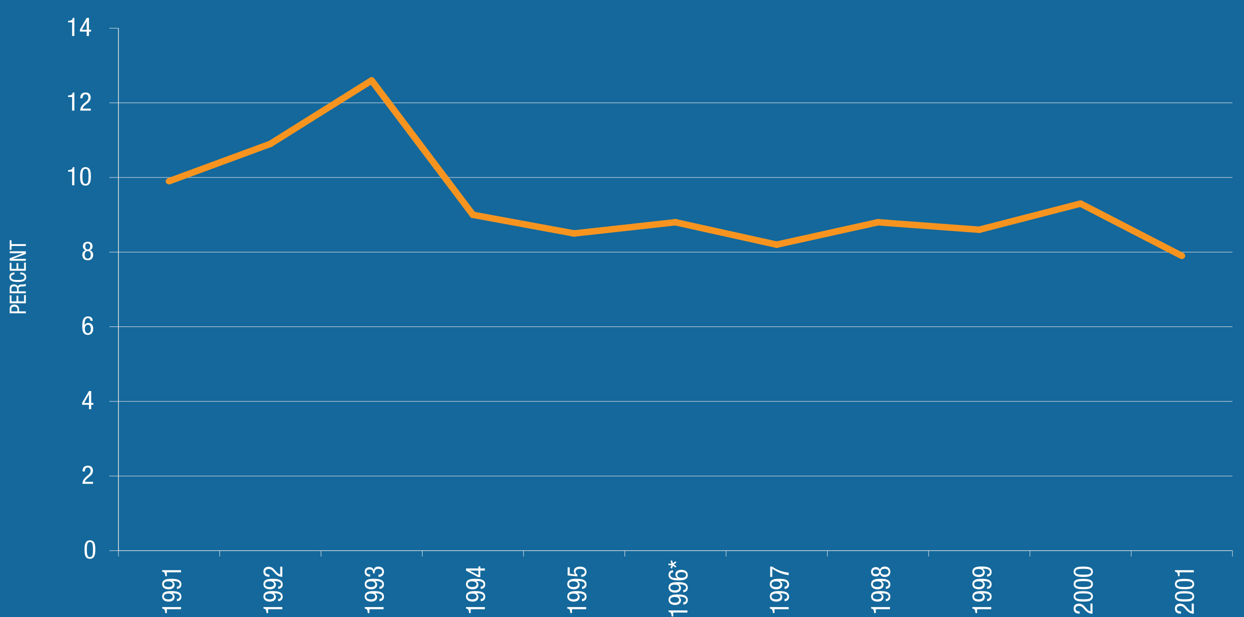
Chart 6 shows the poverty rate over the five years prior to Wisconsin's first reform, Learnfare. [176,177]

Chart 6: Wisconsin Poverty Rate



* 1987 was the year Learnfare was enacted

Chart 7: Percent Before and After Self-Sufficiency First Reform



Source: Endnote 178 U.S. Census Bureau, Endnote 179 U.S. Census Bureau

Gov. Scott Walker has continued welfare reform. His administration introduced a program in April 2015 that requires all able-bodied childless adults from 18 to 49 to work, or go through some type of job training, or do both, for 80 hours a month in exchange for receiving FoodShare benefits. The MacIver News Service reported in December 2016 that "one and a half years after Gov. Scott Walker's welfare reforms went into effect, 17,801 Wisconsinites have gained employment through the Food-Share Employment Training (FSET) program. Those individuals continue to garner higher wages and more hours, continuing the prior year's trend, according to new data released by the Department of Health Services."[180]

By January, the number had risen to 21,000 while 64,000 lost benefits because they neither went to work nor looked for a job after receiving food stamps for three months.[181]

Virginia.

Under Gov. George Allen, Virginia also moved ahead of federal welfare reform. The Virginia Initiative for Employment Not Welfare (VIEW) went into effect in July 1995, requiring able-bodied recipients "who do not meet an exemption to participate in a work activity" within 90 days of being approved for TANF benefits.[182] The law also limited VIEW participants to 24 months of TANF eligibility followed by a 24-month break.[183]

Two-and-one-half years after VIEW went into effect, Matthews and Becker reported that "more than 30 percent of Virginia's total welfare caseload went to work to avoid a loss of benefits" and "the welfare caseload declined 14 percent after only the first year, saving Virginia taxpayers $13.8 million."[184]

Furthermore, caseloads fell only 2 percent over that same period in neighboring Washington, D.C., which had not "not made a strong commitment to a welfare-to-work initiative," said Matthews and Becker.[185]

Average monthly TANF caseloads in 1995 were about 73,000.[186] By 2015, they had fallen to 25,711.[187]

Michigan.

Gov. John Engler was also a trend-setter, obtaining a federal waiver in October 1992 to implement a program called To Strengthen Michigan Families (TSMF). The objective was to encourage families to stay together by eliminating the penalty for being married.

Two years later the state enacted the Work First program, which required welfare recipients to put in at least 20 hours of work each week or actively look for work within 60 days. Non-compliance resulted in a 25 percent decrease in benefits for four months followed by case closure.[188]

The primary goal was to move recipients into jobs through "a variety of approaches to achieve this outcome, ranging from pre-employment workshops and assistance in job placement to client-directed job search."[189] Through Project Zero, the state attempted to move to "the point in time where all target Family Independence Program (FIP) cases are working and earning income."[190]

According to the Brookings Institution: "The state essentially eliminated federal time limits by committing itself to use state funds to assist people beyond the five-year limit. But instead of financial incentives, Michigan uses a wide range of training, employment, and educational services through its workforce development system to move people into jobs and keep them there."[191]

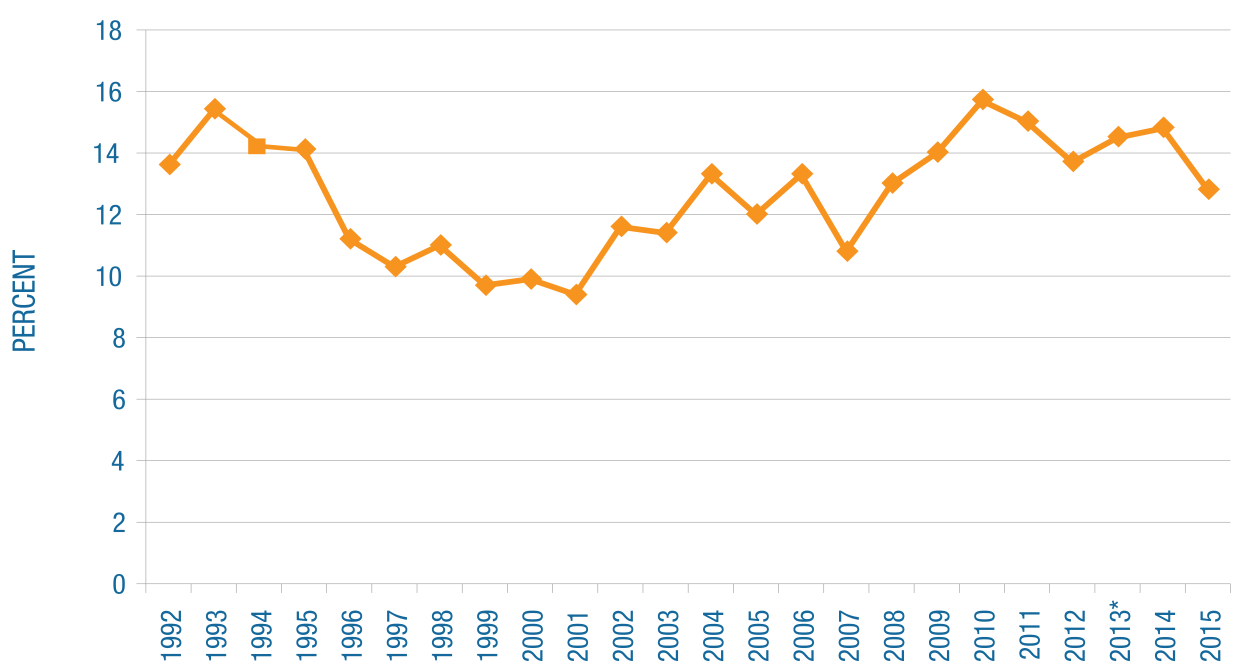
The outcome of these efforts was predictable. Again, Matthews and Becker:

> "Like other aggressive welfare reform states, Michigan has seen its caseload drop significantly. In 1991, Michigan's Family Independence Agency (formerly the Department of Social Services) had a welfare caseload of 245,000. Since the launch of the program in October 1992:
>
> - 129,016 welfare recipients left the rolls within five years in Michigan because they were earning too much money to qualify.
> - Cases without earned income decreased from 178,751 in September 1992 to 88,156 in September 1997."[192]
>
> By 1999, Doug Rothwell, CEO and department director of the Michigan Jobs Commission, said "we've helped over 100,000 people find jobs and get more money for themselves and their families through Work First and the welfare caseload has been cut in half. We've helped people go to work, which helps them both financially and emotionally. But another significant measure is the decline in the percentage of people living in poverty. By both measures, Michigan's reforms are a huge success."[193]

Michigan's reforms have endured, even though its "one-state recession" that lasted during much of the 2000s. The number of families receiving cash assistance has fallen from 184,000 in 1996, to 39,000 in 2014, to fewer than 23,000 in 2016.[194]

In 1990 and 1991, before the reforms were initiated, Michigan's poverty rate was 14.3 percent and 14.1 percent respectively. Chart 8 below shows Michigan's poverty rate after the reforms.[195]

Chart 8: Michigan Poverty Rate: After Reforms



*The Census Bureau redesigned its income survey questions in 2013 and it resulted in two separate estimates for that year.

Source: US Census Bureau

Kansas.

Work requirements were established in 2013 and time limits were placed on food stamp benefits for able-bodied adults with no dependents. Before the changes, "with no welfare work requirement or time limit, just one in five able-bodied adults on food stamps worked," says the Foundation for Government Accountability. "Nearly 93 percent of them were in poverty, most in severe poverty. Since implementing work requirements and time limits, the number of able-bodied adults on food stamps has dropped by 75 percent. . . . Nearly 60 percent of those leaving food stamps found employment within 12 months and their incomes rose by an average of 127 percent per year. That higher income more than offset the food stamps they lost, increasing economic activity, and bringing in new resources for other state priorities."[196]

In the three years prior to the 2013 work requirements and time limits on food stamps, Kansas' poverty rate was at least 14 percent. In the year after, it fell to 12.1 percent, the lowest it had been since 2007. It rose to 14.2 percent in 2015 but fell back to 12.1 percent in 2016.[197]

Maine.

Within three months of establishing work requirements for the able-bodied with no dependents, the state's food stamp caseload for these recipients dropped nearly 80 percent, from 13,332 in December 2014 to 2,678 in March 2015.[198]

Alabama.

Food stamp participation dropped since Jan. 1, 2017 by 85 percent in the 13 counties where work requirements were reinstated after having been temporarily suspended.[199] Alabama Department of Human Resources spokesperson John Hardy issued a statement that "based on the trend," the number of able-bodied adults without dependents who receive food stamp benefits "is expected to continue to decline statewide."[200]

Evaluating California's Anti-Poverty Programs: Continue, Reform or Repeal?

California has a variety of government-funded programs on the books designed to help those who are living in poverty. As is too often the case with well-intended public programs, not enough evaluation is done to determine whether these programs are cost-effective and meeting their stated goals. In this section, we will explore the state's major anti-poverty programs, and evaluate whether they should be continued as-is, reformed, or repealed.

Repealing established government programs will strike some as uncaring. But federal, state and local government efforts have neither the knowledge nor the incentives to solve large-scale problems such as poverty. There is a more humane, more effective and proven structure to aid the poor than programs that fail to deliver results. Academic Richard C. Cornuelle called this the "independent sector." It is also known as the "third sector" and the "voluntary sector."

In his 1965 book *Reclaiming the American Dream: The Role of Private Individuals and Voluntary Associations*, Cornuelle observed that:

> "As a frontier people, accustomed to interdependence, we developed a genius for solving common problems. People joined together in bewildering combinations to found schools, churches, opera houses, co-ops, hospitals, to build bridges and canals, to help the poor."[201]

Writing in *The Philanthropic Enterprise*, Roger A. Lohmann describes the book as:

> "First and foremost, a reaffirmation of continuing American faith in the power of people in their daily lives to act together outside of politics and without the leadership of government (or, I would add, that other great behemoth, the price system) to effect change in their life-worlds."[202]

The "independent sector" is actually apart from the nonprofit sector. Cournelle's "independent sector" is a web of voluntary associations, those described by Alexis de Tocqueville in his study of America that produced *Democracy in America*; it is, as well, a form of interacting that today we call "networking."[203]

It is through this lens, as well as that of the nonprofit organizations cited above that are less an adjunct of government than many traditional institutions, and in some cases fully removed from government, and in consideration of the efficacy of both, that we evaluate the state's basket of anti-poverty programs.

CalWORKs

Formally California Work Opportunities and Responsibility to Kids, CalWORKs is a welfare-to-work program that is intended to move the poor away from dependence on government. California's version of the Temporary Assistance for Needy Families program was a response to the 1996 congressional welfare reform enacted two years after the federal Personal Responsibility and Work Opportunity Reconciliation Act became law. Both local and state annual expenditures exceeded $2.8 billion in the 2016-17 fiscal year.[204] CalWORKs provides benefits to about 500,000 families and is the most expensive anti-poverty program in the state.

By its own description, CalWORKs is "a public assistance program that provides cash aid and services to eligible families that have a child(ren) in the home."

"If a family has little or no cash and needs housing, food, utilities, clothing or medical care, they may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance receive money each month to help pay for housing, food and other necessary expenses."[205]

Typical of anti-poverty programs, CalWORKs operates through perverse incentives. The Legislative Analyst's Office notes that "a family's monthly grant is reduced by the amount of the family's earnings, such that families with no income receive the maximum CalWORKs grant."[206] This can discourage the 257,000 adults [207] who receive CalWORKs grants from seeking employment.

However, when calculating a grant, the program disregards a portion of earnings "so that the reduction in the grant is less than the amount of the earnings. "This means that a family combining earnings with CalWORKs assistance will have greater total resources (grant plus earnings) than if the family has no earnings."[208] For instance, a family of three living in a high-cost county would receive a monthly grant of $704 with no outside earnings, but the grant would fall to $487 a month with $660 in earnings.[209]

This only limits the consequences, and doesn't eliminate them as some beneficiaries would rather receive the lesser amount and not work than to work and receive a larger amount.

Changes were made to the CalWORKs program in 2013 through the California Budget Act of 2012. The modifications included the aforementioned disregard for earned income; a reduced requirement for hours worked by single parents, from 32 hours a week to 20 for whose youngest child was not yet six and from 32 to 30 for all other single parents;[210] and an increase in the monthly cash grant.[211]

Another change arrived in 2016, when the California Legislature ended a rule called the "maximum family grant" or MFG. The rule was adopted in the mid-1990s in an effort to end welfare recipients' incentive to have more children in order to receive additional benefits. The California Department of Social Services told recipients that, beginning on Jan. 1, 2017, "your cash aid may go up or change if:"

- "Your Assistance Unit (AU) includes a child(ren) currently subject to the MFG rule because they were born to your family after you got cash aid for 10 months in a row right before the child's birth, and your cash aid did not go up after their birth. Your child(ren) will be automatically added to the AU starting the month of January and you will get a Notice of Action showing your new benefit amount.
- "A new child is born to you."[212]

The Legislative Analyst's Office estimates that the repeal will cost $220 million in 2017-18, $228 million in 2018-19 and $237 million in 2019-20.[213]

As is the case with most if not all public-assistance programs, CalWORKs has been plagued with losses through fraud and error. Through March 2014, the state had accumulated $848 million in overpayments.[214] The program has also accumulated penalties for failing to meet the federal work participation rate. Governor Brown's administration says the state "is in the process of correcting and mitigating fiscal penalties totaling $1.5 billion for failing to meet" the rate from federal fiscal years 2011 through 2015.[215]

☐ Continue ☑ Reform ☐ Repeal

The ultimate goal should be repeal, either because the program works and eventually drives the poverty rate to consistent historical lows, or because after decades of implementation, little to no progress is ever made. A program that cannot deliver – the three-year (2013-2015) 15 percent average in the conventional poverty rate is hardly an improvement over the 15.4 percent rate posted the year CalWORKs was rolled out in 1998 – should not be a permanent policy fixture.

In the meantime, policymakers should consider an idea similar to that offered by Assemblyman Chad Mayes to incentivize education. Mayes proposes to increase CalWORKs monthly payments by $100 for recipients who graduate high school, $200 for recipients who earn an associate's degree or a career and technical education certificate, and $300 for recipients who obtain a bachelor's degree. This could be done without new funding and would provide a more appropriate, rather than perverse, incentive.

Jessica Bartholow, a legislative advocate at the Western Center on Law and Poverty, says that "nearly three of every four low-income parents in the CalWORKs program do not have a high school degree, not to mention a trade or college degree." If they were to improve their education, it "could help them exit poverty."[216]

Establishing a time limit is another need. Federal policy that is filled with loopholes encourages states to limit TANF benefits to no more than five years, but California is one of several states that rather than enforce that limit, simply reduces benefits, all of which are paid by the state with no federal contributions.[217] Knowing that the deadline is arriving creates a healthy incentive for recipients to seek work.

The key to successful workfare outcomes, according to the Brookings Institution, are "carefully structured work experience programs." Harry J. Holzer of Brookings says that studies have shown that when done right, work requirements "can have a positive impact on the employment rates of disadvantaged groups and can generate socially valued goods and services. When poorly designed, they can be wasteful and have small net impacts on employment and output."[218] Holzer says the effective programs have:

- Limited participation "to those with very weak ability to find jobs on their own."
- Limited "the length of time which participants can spend in publicly provided jobs . . . so as to generate incentives to seek other employment."
- Ensured that "the jobs themselves" are "carefully chosen to limit displacement of other workers."[219]

Success from work requirement programs is also contingent upon "moving welfare recipients into immediate work" because it is more effective "than focusing on education."[220] Another key to success, according to the Foundation for Government Accountability, is the implementation of a "comprehensive welfare tracking system" that monitors "the impact on individuals' employment and earnings."[221]

Policymakers must also address CalWORKs' fraud and overpayment problems. A greater effort needs to be made to root out the fraud through law enforcement, and to collect overpayments by demanding counties, which are required to identify and collect them, and meet their obligations. Counties should be statutorily freed to collect overpayments from those no longer receiving aid.

Hawaii has begun an effort to recoup $50 million welfare overpayments by increasing the number of government workers who process applications from one to a pool of employees, tracking data online, and making it all available to be cross-checked.[222] At the same time, the state's department of human resources has teamed with the attorney general's office "to prosecute more of the most serious cases," KHON television reports, with the civil collections staff working roughly 200 cases and gaining "nearly 50 criminal judgments worth more than $8 million."[223]

Earlier in 2017, Mississippi enacted a law "that will require the state to hire a private contractor to create a new computer system to review and more frequently check the eligibility of people participating in" some anti-poverty programs, Pew Charitable Trusts reports. "Similar bills are being considered in Oklahoma and Ohio, and Missouri and Wyoming enacted similar laws last year."[224]

Illinois preceded these states in hiring a private contractor to root out fraud, and within roughly a year of activating the program, benefits for nearly 150,000 Medicaid recipients whose eligibility could not be verified were canceled, saving the state an estimated $70 million.[225]

Supplemental Security Income/State Supplementary Payment

This is the second most expensive anti-poverty program in the state. This program provides a cash benefit in addition to the federal benefit for "people who are disabled, blind, or elderly (who) may not be able to work or afford to live on their own." According to the Legislative Analyst's Office, "The state's general fund provides the SSP portion of the grant while federal funds pay for the SSI portion of the grant." The 2017-18 budget includes nearly $3 billion for the state's share, $55 million more than the previous budget – a 1.9 percent increase.[226] [227] The federal contribution is $7.3 billion for total program funding of $10.2 billion.[228]

Roughly 1.3 million individuals and couples will receive SSI/SSP grants during the 2017-18 fiscal year, an increase of 0.1 percent over 2016-17, following caseload reductions of 0.8 percent in 2015-16, and an estimated 0.3 percent reduction in 2016-17.[229] As of December 2015, 3.3 percent of the state population was receiving SSI/SSP benefits.[230] Most recipients were in the 18- to 64-year-old age group (about 608,000), with those 65 and older next (roughly 570,000 recipients); nearly 114,000 recipients were younger than 18.[231]

The maximum monthly SSP grant for 2016-17 was $160.72 for individuals, $407.14 for couples.[232]

☐ **Continue** ☑ **Reform** ☐ **Repeal**

California lawmakers are duty-bound to ensure that only those who are truly in need receive SSP benefits and should request a waiver from Washington to reform the program in order to restrict eligibility when it's warranted. Efforts should also focus on returning temporarily disabled beneficiaries to the work force.

At the federal level, "policymakers have liberalized eligibility standards for SSI's benefits over the years, with the result that many people who are capable of working are making the choice to remain idle and receive benefits instead," Tad DeHaven wrote in 2013.

"Of particular concern is the growing number of children who are qualifying for SSI on the basis of a mental or behavioral disability. Many children who are capable of becoming productive working adults are being lured into long-term government dependency."[233]

Incentivizing program enrollment for those who aren't in need, or the young who would otherwise become "productive working adults," dilutes the pool of resources that the truly disabled should be receiving. Policymakers are responsible for ensuring that the program works for those who cannot live without assistance.

General Assistance

Counties spent $400 million in 2011 with no state or federal contributions.[234] The California Department of Social Services says the program "is designed to provide relief and support to indigent adults who are not supported by their own means, other public funds, or assistance programs."[235] By state law, every one of California's 58 counties has to participate and provide assistance, and every county's program is established and regulated by its board of supervisors.[236] Recipients are low-income adults with no dependents, and benefits are considered loans.

☐ **Continue** ☑ **Reform** ☐ **Repeal**

Time limits should be established in counties where there are none, and shortened where they exceed 60 days in any 12-month period. Exceptions can be made for those who are permanently disabled and have no other means of assistance. All counties should require recipients to conduct active job searches and participate in job training.

CalFresh

The state's discharge of the federal Supplemental Nutrition Assistance Program (SNAP) cost $74 million in state funds to provide monthly food benefits in 2015-16,[237] while the school lunch and breakfast programs required $157 million from state and local sources.[238]

The CalFresh monthly food benefits are issued through an electronic benefit transfer (EBT) card, and the program, predictably, has a built-in incentive for recipients to not fulfill their potential. Households – except those with a person who is older than 60 or disabled – that earn up to 200 percent of the federal poverty level are eligible for CalFresh benefits. It is the largest food-assistance program in the country, with benefits flowing to 4.4 million recipients living in 2.1 million households in fiscal 2015.[239] The average recipient received $142 in food-assistance benefits each month that year.[240]

☐ Continue ☑ Reform ☐ Repeal

The Public Policy Institute of California reports that CalFresh "plays a major role in mitigating poverty" and in 2013 "moved roughly 890,000 Californians above a poverty line."[241] This was achieved because the benefits are counted in poverty rate calculations for their cash value and therefore increase families' resources. But this is an artificial gain secured by government intervention that shifted wealth rather than created it.

CalFresh's role should be limited, temporary and a guide toward self-sufficiency. Sacramento would be wise take a hard look at what the city of Fresno has done to move residents off food stamps. The Fresno Bridge Academy, begun in 2010, enrolls CalFresh recipients in an 18-month program "that helps bridge qualified and motivated individuals to services such as job placement and vocational training," according to the County Welfare Directors Association of California.[242] The program, which enrolled more than 1,500 families in 2016, is expanding into San Joaquin, Madera and Napa counties.

Program founder and chairman Peter Weber, a former business executive, told the McClatchy News Service in 2016 that "more than 80 percent of the Fresno program participants have gained new jobs or significantly higher wages . . . while about 30 percent have left the food stamp program by the time they graduate."[243] McClatchy further reported that "Weber also cited the Fresno Bridge Academy's unique 'cost-benefit model,' which puts a dollar value on what taxpayers get back for what they spend. According to Weber, every dollar spent on the program results in $5.50 in taxes being paid or other public benefits."[244]

There are even questions about food stamps' capacity to reduce hunger. A report from the Government Accountability Office found "those who choose to participate in food assistance programs generally have greater difficulty meeting their food needs and tend to be more food insecure compared to others that are eligible for programs but do not participate."[245]

Minimum-wage laws

California's minimum wage has exceeded the federal minimum wage since 2000, when the state's wage floor was $5.75 an hour, 50 cents higher than the federal minimum.[246] By 2014, the California minimum wage was $9 an hour compared to $7.25 federal; in 2017, California's minimum reached $10.50 an hour while the federal wage remained the same.[247] Over the same period, California's minimum wage was among the highest in the country compared to other state minimum wages.[248]

Though minimum-wage laws are passed with assurances that they will relieve poverty, the evidence indicates otherwise. The Federal Reserve Bank of San Francisco says that the research literature shows "that there is no statistically significant relationship between raising the minimum wage and reducing poverty."

> "The evidence simply does not provide a strong case for using minimum wages to reduce poverty. Similarly, recent research does not provide conclusive evidence that a higher

> minimum reduces government spending on welfare and other programs to support poor families, with the possible exception of food stamps."[249]

Because, as the report concludes, "minimum wages represent a cost to businesses, consumers, and other workers who may face fewer job opportunities,"[250] a case can be made that minimum-wage laws make matters worse. Indeed, they are noted job killers. Requiring businesses to increase their labor costs inevitably forces them to cut jobs. Ryan McMaken of the Mises Institute says that "the primary effect of the minimum wage is to make the lowest-skilled workers legally unemployable."[251]

Minimum wages also raise the cost of production, which forces prices higher. The poor feel the impact of higher prices more than the middle and upper classes.

Since 2012, more than a dozen cities and counties in the Bay Area have changed their minimum-wage ordinances. Among them is San Francisco, which increased its minimum wage last year to $13 an hour. On July 1, 2017, it will be $14 an hour. A year later it will rise to $15 an hour.[252] A Harvard study has determined that minimum-wage hikes such as San Francisco's have forced restaurants out of business.

"Our point estimates suggest that a one-dollar increase in the minimum wage leads to a 14 percent increase in the likelihood of exit for a 3.5-star restaurant," said the authors.[253]

They also found that not only is business survival negatively impacted by increased minimum wages, they determined "that higher minimum wages deter entry" of new restaurants into the market, meaning that they also inhibit new job creation.[254]

Increases in the minimum wage have had a negative effect in Seattle, as well. A National Bureau of Economic Research paper says that the city's first minimum-wage hike, from $9.47 an hour to $11 an hour on April 1, 2015, caused "modest reductions in employment." The second increase, to $13 an hour on Jan. 1, 2016, led to a 9 percent reduction in hours worked at wages below $19 an hour, and created a disemployment effect that "would occur if, for example, a business that employed 11 low wage workers per shift in 2014 cut back to about 10 workers per shift in 2016."[255]

☐ Continue ☐ Reform ☑ Repeal

Until the state and local jurisdictions roll back their minimum-wage laws and allow the market to set wages – which is just another way to say let private individuals reach voluntary agreements with each other – then jobs will continue to be lost or never created, and the poorest will continue to have government-built hurdles that make escaping poverty more difficult.

There is precedence. New Missouri legislation that will eventually become law prohibits cities and counties from establishing minimum wages that exceed the state minimum wage.[256] Alabama, which does not have a state minimum wage,[257] passed a law in 2016 that bars local governments from requiring employers to pay a minimum wage.[258] Iowa passed a law in March 2017 similar to the Missouri law.[259]

Conclusion & Recommendations

There is evidence that the value of a full package of anti-poverty benefits not only exceeds the poverty level because they are tax-free and can be quite generous, the dollar value of the combination of programs also exceeds the amount of take-home pay a worker would earn from an entry-level job.[260] Consequently, "the current welfare system provides such a high level of benefits that it acts as a disincentive for work," Cato's Tanner and Charles Hughes have found.[261] California ranks 11th among the 50 states and the District of Columbia with an annual welfare package worth $35,287 in 2013.[262]

It is with this in mind that considering across-the-board reforms rather than focusing on one program at a time might be the better, though certainly politically more difficult, approach.

No matter which path is chosen, all anti-poverty programs should have a rigorous component of work requirements. The Heritage Foundation's Rector has reported that the federal "work requirement led to the historically unprecedented drop in welfare caseloads."[263] The caseloads fell from about 4.5 million families at the time of the 1996 welfare reform to roughly 1.7 million by 2015.[264] California could make deep improvements in this area, as it received only a "C" in the Heartland Institute's 2015 Welfare Reform Report Card.[265]

Chart 9: Welfare Reform Policy Grades

STATE	GRADE
California	C
Wisconsin	A
Michigan	A
Virginia	B

Source: 2015 Welfare Reform Report Card, Heartland Institute

This is progress. But even the improvements brought by work requirements have been modest, at best. As Veronique de Rugy and Andrea Castillo noted in "US Antipoverty Policy and Reform" from George Mason University's Mercatus Center, "despite decades of proliferating programs, expanding goals, and ballooning budgets, the official poverty rate in the United States has stubbornly refused to break from its narrow historical range."[266]

The best anti-poverty program is not a public-financed safety net but a strong and growing economy, combined with social expectations that all able-bodied adults should be self-sufficient participants in the economy.

Larry Read, president of the Foundation for Economic Education, notes that long before government anti-poverty programs were commonplace, the founding fathers "and their successors in the 1800s" fought "the most comprehensive and effective (war) ever mounted by any central government anywhere" and won.

> "It was, in a word, liberty, which meant things like self-reliance, hard work, entrepreneurship, the institutions of civil society, a strong and free economy, and government confined to its constitutional role as protector of liberty by keeping the peace.
>
> "And what a poverty program liberty proved to be! In spite of a horrendous civil war, half a dozen economic downturns and wave after wave of impoverished immigrants, America progressed from near-universal poverty at the start of the century to within reach of the world's highest per-capita income at the end of the century. The poverty that remained stood out like the proverbial sore thumb because it was now the exception, no longer the rule."[267]

California policymakers have the obligation to free the economy of the tax and regulatory hurdles that state and local governments have built over the decades. Economic freedom is a pathway toward poverty reduction, and the greater the freedom, the shorter the path.

Those same policymakers should also set the tone for societal expectations. The Brookings Institution says that Americans have a 98 percent chance of avoiding poverty by graduating from high school, working full time at any job, and waiting until marriage to have children.[268] Rather than reinforcing recipients' dependency mindset, lawmakers in Sacramento and at the local levels need to be asking them to meet these three simple standards.

Furthermore, California policymakers should:

- **Make Housing More Affordable**. This includes reducing the many government barriers that create disincentives for developers to build homes, which has resulted in a severe housing shortage and produced prices that take a large bite out of Californians' incomes. The Legislative Analyst's Office says that to meet demand, 100,000 homes need to be built every year in addition to the 100,000 to 140,000 that are expected to be built annually.[269]

- **Suspend Coming Minimum Wage Increases**. Missouri and Iowa already prohibit cities and counties from establishing minimum wages that exceed the state minimum wage, and Alabama, which has no state-enforced minimum wage, does not allow local governments to set minimum wages. The American Legislative Exchange Council has developed model legislation called the Living Wage Mandate Preemption Act, which "repeals any local 'living wage' mandates, ordinances or laws enacted by political subdivisions of the state. It also prohibits political subdivisions from enacting laws establishing 'living wage' mandates on private businesses."[270]

- **Rethink and Reform Energy Policy**. The Manhattan Institute suggests establishing a comprehensive, impartial cost-benefit analysis of the state's energy policies and recommends imposing "a greater share of the burden of renewable mandates on wealthier households and avoid over-allocating fixed-utility costs to lower-income households,"[271] which don't participate in California's subsidized rooftop solar-panel programs at nearly the same rate as wealthier households do. A study by the California Public Utilities Commission Energy Division found that customers installing solar systems since 1999 have an average median household income "of $91,210, compared to the median income in California of $54,283," meaning the median household income of these customers is 68 percent higher than the state median household income.[272]

Thanks to the state's solar program, the poor are subsidizing the energy use of the rich in California. This must be changed.

- **Make the Entire State an Enterprise Zone**. When unemployment was rising across the state in 2010, dozens of enterprise zones were able to create or retain 118,000 jobs.[273] A Federal Reserve Bank study has found employment in California enterprise zones is 2 percent to 3 percent higher each year than in comparable non-enterprise zones. Expanding enterprise zones statewide would therefore eventually create millions of new jobs.[274]

- **Develop New and Innovative Public Policies to Shift Anti-Poverty Efforts Away from Government and to Private Institutions**. The goal should be to move Americans out of poverty, not lock them in as social workers' clients and government dependents. This is difficult when, as explained by Center for Neighborhood Enterprise President and Founder Robert L. Woodson Sr., "providers are rewarded not for solving problems but, in effect, for proliferating them: The larger and more diversified the problem set is, the larger the grants and salaries must be, and the more extensive the staff to justify it all."[275] The incentives are different for private institutions because their goal is to lead the poor out of poverty.

  Jeffrey R. Williams, a Michigan researcher, has outlined a process for privatizing basic welfare services and transforming a "state monopoly system" into a market-based system. He believes his proposal could:

  > "Empower recipients of services as customers who can make choices. These customers then continually nudge vendors in the direction of improved quality and reduced prices through their purchasing decisions.
  >
  > "Allow all qualified vendors to bid for government contracts.
  >
  > "Break down large projects into smaller jobs so that more vendors and smaller vendors can participate in bidding."

  He sees government contracts that would "obligate a contractor to provide only for the basic needs of one person or one family for a short period of time, and any household would be eligible to bid for such a contract. Contractors would not necessarily be required to shelter the needy in their own homes, but could also house them in vacant houses or apartments. . . . The person seeking shelter, now empowered as a customer, could choose a provider from among the low bids."[276]

  Williams' expectation is that the vendors/contractors will compete for clients by lowering prices and improving services.

- **Initiate Education Reform**: California's education system is failing many of its students, and far too many of them end up living in poverty. Students deserve more school choice that will allow them to opt out of failing public schools. Allowing parents to choose the public school, private school, charter school, religious school, homeschool, or other educational option of their choice will empower them and force schools to compete for students, which will require them to improve their product.

Poverty will never be fully eliminated in California or elsewhere. But it can be reduced if policymakers will curb their well-intentioned urges to subsidize it, and focus instead on enacting policies that improve the conditions under which an economy can flourish. Rather than yoke the poor to government programs, empower them with opportunity. As many economists, the late Milton Friedman in particular, have noted, economic freedom has lifted more humans out of poverty than all government programs combined.

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