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The Political Economy of Welfare Reform in the United States

A thesis submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy at George Mason University.

By

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ABSTRACT

THE POLITICAL ECONOMY OF WELFARE REFORM IN THE UNITED STATES

Mary Reintsma, M.Phil.

George Mason University, 2001

Thesis Director: Dr. Charles Rowley

This dissertation examines the relevance of two alternative economic models, the public choice model and the public interest model, in explaining the evolution of social welfare policy embodied in the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). This legislation, it was initially felt, would be minimally affected by the pressures of interest groups and the rent seeking activities which are so much a part of the public choice paradigm. In fact, the legislation turned out to attract not only the traditionally active interest groups with primarily pecuniary or political objectives, but also some very influential ideological groups, that sought to inject an ideological component into the legislation.

After describing and critiquing the two economic models in the first three chapters of the dissertation, the focus turns to a description and analysis of the history of social welfare policies in Great Britain and the United States in chapter four, and a more detailed historical perspective of PRWORA, the New Welfare Law, in chapter five. This historical perspective clearly reveals that both the problems and the proposed solutions have been strikingly similar over decades and

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even centuries, and that, in the search for solutions, interest groups have always played a central and critical role.

Chapter six focuses on the legislative process, and, based on extensive interviews, the role and influence of the political, ideological and pecuniary groups that played an active role in the design and passage of PRWORA. The focus changes from process to outcome in chapter seven, which provides an econometric analysis of the degree to which interest groups were effective in achieving their aims, specifically in reducing welfare caseloads. Extensions of the basic econometric model examine related issues, including the validity of the median voter model and the effect of interest groups on the level of welfare benefits. Both the institutional analysis and the econometric analysis provide strong support for the public choice hypothesis that legislative outcome is highly dependent on the input of interest groups and the interactions of such groups with those responsible for passage of the legislation.

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INTRODUCTION

This dissertation examines the relevance of two economic models, the public interest model and the public choice model in explaining a specific piece of social welfare legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, often referred to as the New Welfare Law. The traditional public interest model holds that the role of the government is to intervene in the economy in the interest of the public good and to correct a problem that the free market is unable or unwilling to address. The public choice model, which applies the tools of economics to political decision-making, assumes that the outcome of government action is a result of each individual or group acting rationally and in their own self-interest. A specific piece of legislation produced by this process would reflect the objectives and resources of the individuals and groups involved and might diverge widely from any notion of the public good.

The New Welfare Law provides the case study for analysis of the alternative theories. This piece of legislation is particularly useful in addressing the problem for two reasons. In the first place, it is generally accepted that business interest groups will be very involved in strictly economic issues such as regulation or deregulation of business, or changes in business taxes. Welfare reform, however, might at first glance seem to be an area in which few interest groups would find it worth the effort to become involved, thus providing a more stringent test of the public choice theory. In fact, it turned out that a multitude of interest groups were very interested in the issues under consideration and the crafting of the legislation.

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In the second place, welfare reform is an issue which lends itself to an examination of the role of ideology in the legislative process. The nature of the issue is such that it attracts groups that are ideologically based, both liberals and conservatives. This piece of legislation thus allowed for an exploration of a topic that is dealt with rarely and often inadequateiy in the economics literature.

The traditional public interest theory is laid out in chapter one, followed by an exposition of public choice theory in chapters two and three. The focus then shifts in chapter four to present a historical perspective of social welfare from the early monasteries in England, through the colonial period and up to the present day. The specific genesis of the New Welfare Law is dealt with in detail in chapter five, and an institutional analysis, based in large part on interviews with representatives of the interest groups, legislators, state officials and others is presented in chapter six. This institutional analysis is followed by an econometric analysis in chapter seven which models the effect of the New Welfare Law on changes in caseloads, the reduction of which was a primary objective of the major interest groups involved. Several additional models are developed and estimated to test other issues relating to the theoretical analysis. A brief summary is presented in the concluding section.

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CHAPTER 1

TRADITIONAL PUBLIC INTEREST MODEL

Introduction

The appropriate role for the government to play in the economic affairs of a nation has been the subject of debate and contention for centuries. There has never been consensus on either the extent of government involvement in the economy or the specific areas in which it is appropriate for the government to intervene.

In the seventeenth and eighteenth centuries, for instance, many economists, particularly in France, believed that the government had a major role to play in controlling international trade. In an era marked by competition among the European powers to establish colonies, political interests and commercial interests coincided in the promotion of trade and industry. The public interest, however, may not have coincided with either. Partly as a reaction to this mercantilist view, Adam Smith wrote the Wealth of Nations (1776) which advocated a much more limited role for government, and which argued that individuals, in pursuing their own self interest, would be led as if 'by an invisible hand' to serve the public interest. In this view the profit motive and competitive forces will lead to production at the lowest prices of those goods that are most in demand. Thus Smith writes that man:

"... intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." (p.129)

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Thus, given the appropriate assumptions, discussed in more detail below, unfettered market forces will tend to lead to an efficient allocation of resources in the economy.

The competitive market solution promoted by Smith, in the absence of policy-relevant externalities, can be shown to represent not only an efficient allocation of resources but also an optimal outcome in the sense defined by Vilfredo Pareto. Writing in the 1890's and early 1900's, Pareto set forth criteria upon which the theoretical foundations of welfare maximizing economic policies are largely (and some would say unjustifiably) based.

I. Pareto Optimality

The Pareto criterion states that an outcome is Pareto optimal if no one person can be made better off without making at least one other person worse off. If a particular change in the economy would result in one person being better off and no-one worse off social welfare would have improved and the change would result in a Pareto superior position.

Theoretically, there exists a frontier of Pareto optimal states of the economy. The degree to which these states are a useful guide for policy is debatable. Moreover, even holding the position that the economy ought to be at a Pareto-optimal position entails a value judgment that lies outside the realm of positive economics. What economic science can contribute, however, is an analysis of the conditions which must hold in order for the economy to be at a point on the Pareto frontier. The following section outlines these conditions[1].

A. Pure Exchange

Consider an economy of two individuals and two commodities, x and y. The amount of x consumed by the ith person is denoted x_i. The total amounts of x and y are fixed, for simplicity, so that $x_1 + x_2 = x$, and $y_1 + y_2 = y$. In order to calculate the conditions for the Pareto-optimal

[1] This analysis is based on Silberberg, 1990.

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allocation of x and y between individual 1 and 2, we can formulate the problem mathematically as follows.

Maximize

$$U^2(x_2, y_2)$$

Subject to

$$U^1(x_1, y_1) = U^1{}_0$$

$$x_1 + x_2 = x, \qquad y_1 + y_2 = y$$

This can be solved using a Lagrangian:

$$L = U^2(x_2, y_2) + \lambda(U^1{}_0 - U^1(x_1, y_1)) + \lambda_x(x - x_1 - x_2) + \lambda_y(y - y_1 - y_2)$$

Differentiating we get:

$$L_{x2} = U_x{}^2 - \lambda_x = 0$$

$$L_{y_2} = U_y{}^2 - \lambda_y = 0$$

$$L_{x1} = -\lambda U_x{}^1 - \lambda_x = 0$$

$$L_{y_1} = -\lambda U_y{}^1 - \lambda_y = 0$$

Combining equations we get:

$$\frac{U_x{}^1}{U_y{}^1} = \frac{\lambda_x}{\lambda_y} = \frac{U_x{}^2}{U_y{}^2}$$

which is the tangency condition that the consumer's indifference curves have the same slope, i.e., the marginal rate of substitution of x for y is the same for both consumers, a condition which must hold if the gains from trade are to be exhausted.

This condition can be illustrated by means of the Edgeworth box diagram in Figure 1, which measures the total amount of good x available in the economy on the horizontal axis and

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the total amount of good y on the vertical axis. The origin for consumer 1 is O_1, and for consumer 2 it is O_2. At an initial allocation A, consumer 1 has quantity x_1 of good x and quantity y_1 of good y, while consumer 2 has x_2 of good x and y_2 of good y. Gains from trade can be achieved by a move from A to any point on the contract curve between B and C. The points B and C represent points of tangency between the indifference curves at which the marginal rates of substitution are equal. At such points, which comprise the contract curve, no Pareto superior trade is available. For any point off the curve it can be shown that a Pareto superior move is possible. The contract curve thus represents the locus of Pareto optimal distributions of goods among consumers.

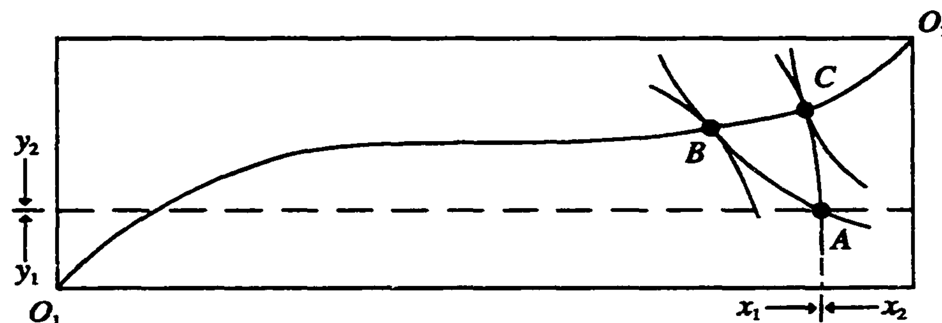

Figure 1 — The Edgeworth box diagram

The utility levels for each consumer represented by the different points along the contract curve can be used to derive the Pareto frontier. (See figure 2.) For any given amount of the goods x and y there exists a set of points for which neither can gain without the other losing. The end points on this frontier represent allocations in which one consumer has all of both goods.

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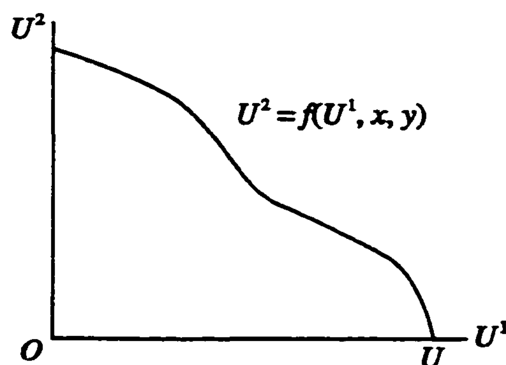

Figure 2 — Utility frontier for given total quantities of goods

B. Production

In order for consumers to be on the Pareto frontier in consumption, the goods must be produced efficiently. If production was at a point inside the production possibilities frontier consumers could both gain by a move to a point on the frontier. Hence, in order to define the Pareto frontier for consumers in the case where x and y are produced, (rather than fixed, as in the preceding analysis), it is necessary to define the production possibilities frontier. This problem can be stated mathematically as follows:

Maximize

$$y = f(L_y, K_y)$$

Subject to

$$g(L_x, K_x) = x$$

$$L_x + L_y = L \qquad K_x + K_y = K$$

where f and g are the production functions of y and x respectively; L_y and K_y represent the amounts of labor and capital, respectively, used in the production of good y; and production of x is fixed. The Lagrangian for this problem is:

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$$L = f(L_y, K_y) + \lambda(x - g(L_x, K_x)) + \lambda_L(L - L_x - L_y) + \lambda_K(K - K_x - K_y)$$

Differentiating yields the following conditions:

$$f_l - \lambda_l = 0$$

$$f_k - \lambda_k = 0$$

$$-\lambda g_l - \lambda_l = 0$$

$$-\lambda g_k - \lambda_k = 0$$

which gives the familiar tangency condition:

$$\frac{f_l}{f_k} = \frac{\lambda_l}{\lambda_k} = \frac{g_l}{g_k}$$

i.e., the ratio of marginal products must be equal for all gains from trade to be exhausted in production, and this ratio must be equal to the ratio of the marginal costs. The set of efficient production plans that this condition implies can be represented on the production possibilities frontier, and for a production plan to be Pareto optimal it must in fact be on this frontier.

C. The Equimarginal Principle

We have so far derived two conditions for optimality: consumers must be on their contract curve for any production level (x, y), and production must be on the production possibilities frontier. One more tangency condition is required: for each consumer, the marginal rates of substitution between x and y must equal the marginal cost of producing x in terms of y, with the quantities of x and y produced being determined by the production possibilities frontier. Thus for overall Pareto optimality (production and consumption), the marginal valuation of each commodity must be the same for all individuals, and that common marginal evaluation must equal the marginal cost of producing that good.

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This third condition may be derived in a manner analogous to the first, with the exception that x and y are now determined by the production possibilities curve rather than being fixed, i.e., the amount of each output is a function of the production of the other output and available supplies of inputs. The problem then is:

Maximize

$$U^2(x_2, y_2)$$

Subject to

$$U^I(x_1, y_1) = U^1{}_0$$

$$x_1 + x_2 = x$$

$$y_1 + y_2 = y$$

$$y = y^*(x, L, K)$$

The last three constraints, which define the production possibilities curve can be combined and written in implicit form, h(x, y). The Lagrangian can then be formulated:

$$L = U^2(x_2, y_2) + \lambda_1(U^1{}_0 - U^1(x_1, y_1)) + \lambda h(x, y)$$

which gives the first order conditions:

$$U^2{}_x + \lambda h_x = 0$$

$$U^2{}_y + \lambda h_y = 0$$

$$-\lambda_1 U^1{}_x + \lambda h_x = 0$$
$$-\lambda_1 U^1{}_y + \lambda h_y = 0$$

Combining and simplifying we have

$$\frac{U^1{}_x}{U^1{}_y} = \frac{U^2{}_x}{U^2{}_y} = \frac{h_x}{h_y}$$

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where hx /hy is the slope of the production possibilities frontier, and where this slope is equal to that of the consumers indifference curves.

This situation is shown geometrically in figure 3. The production possibilities frontier for given resource endowments is represented by the curve PP. The slope of this frontier equals the marginal cost of producing x in terms of y. At any point, such as A, which represents a certain quantity of x and y that is produced, an Edgeworth box diagram may be constructed. The points inside the box represent allocations of x and y to the two consumers, and OA represents the contract curve. At some point or points on this curve, say A, the consumers marginal rates of substitution will equal the marginal cost of x or marginal rate of transformation, shown as the slope of a line tangent to A. This is an overall Pareto efficient point since the marginal rates of substitution for the consumers are equal and they equal the marginal cost of production.

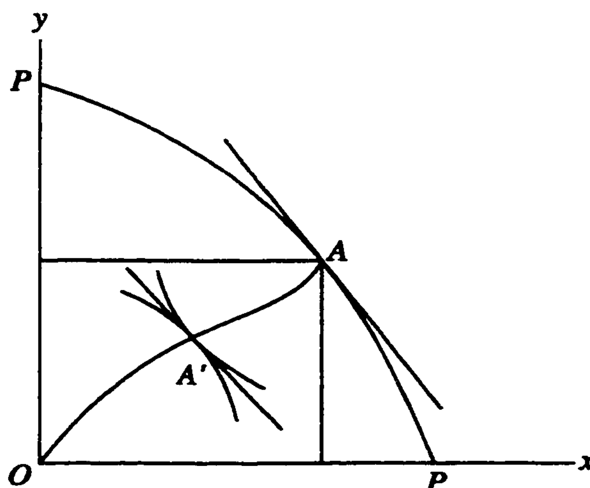

Figure 3 — Overall Pareto optimality

Clearly, an Edgeworth box diagram can be drawn for each point along the production possibilities frontier, giving a new frontier of Pareto optimal points for this particular production

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level of x and y. Moreover, multiple frontiers can be derived for alternative production levels, as shown in figure 4. The envelope curve for all these frontiers UU represents the maximum utility any consumer can achieve for a given level of the other consumer's utility. It comprises a complete set of Pareto optimal production and allocation levels of goods x and y. The choice of which point is best for a society is nowhere addressed in this analysis.

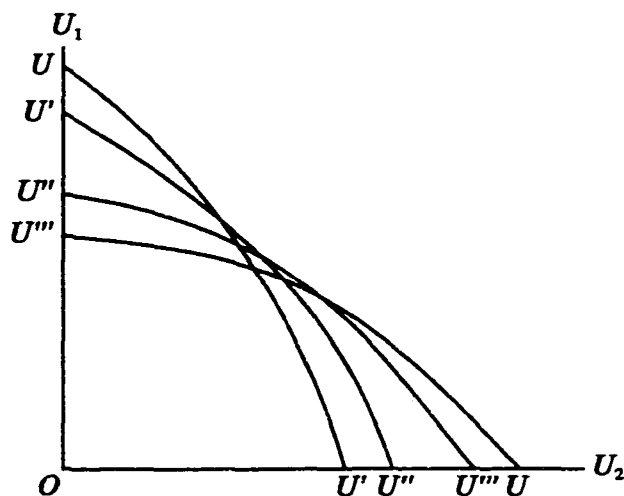

Figure 4 — Partial and overall utility frontier

While Paretian welfare economics is widely employed in the economic theory of public policy, it has been criticized on a number of grounds, not least of which is the value assumptions on which it is based (Rowley and Peacock, 1972). The primary Paretian criteria for evaluating social welfare is that the economy is at a Pareto optimum if no reallocation of resources is possible which improves the welfare of at least one individual and leaves no-one worse off. Thus, interpersonal welfare comparisons cannot be made and intensity of preferences is not considered. A policy which substantially increases the resources of all but the richest member of a society, and leaves him only slightly worse off would not be considered a Pareto improvement.

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A further limitation in Paretian welfare economics is that it holds that social welfare is a function of the welfare of each individual in society, and each individual is the best judge of his own welfare. Thus paternalism of any kind is ruled out, and no individual can impose his preferences on another regardless of prevailing ethics.

A major limitation of the Pareto framework is that the Paretian ranking of states is incomplete. For instance, if certain individuals prefer state *a* to state *b*, while others prefer *b* to *a*, no ranking is defined for these two states; they are Pareto-non-comparable. In situations such as this the status quo dominates and for this reason the Pareto principal has been described as conservative.

But the most important objection to the Pareto criteria, according to Paul Samuelson, is "the lack of emphasis upon the fact that an optimum point, in his sense, is not a unique point" (Samuelson, 1954, p.214). Different initial distributions will influence the optimum points. As Samuelson notes: "If transfers of income from one individual to another are arbitrarily imposed, there will be a new optimum point, and there is absolutely no way of deciding whether the new point is better or worse than the old . . . optimum points constitute a manifold infinity of values . . . (which) . . . can be obtained under regimes quite different from perfect competition" (ibid.).

In order to address some of the limitations described above, a number of extensions to the Pareto principal have been developed. Two of these, the compensation principal and interdependent utility functions are discussed below.

The notion of interdependent utility functions recognizes that the utility of one individual may be dependent on that of another. H. M. Hochman and J. D. Rogers analyzed the case of a Pareto-optimal redistribution of income between two individuals, Mutt who was rich and Jeff who was poor, where the utility of Jeff was an argument in the utility function of Mutt (1964). The authors show that the degree of income redistribution which is Pareto optimal is a function of

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the initial distribution of income and of Mutt's marginal rate of substitution between keeping income and transferring income to Jeff. While there is no reason that such transfers could not take place through the private sector for a small economy, the free rider problem could indicate the possibility of gains from collective action. Even here, however, the practical efficacy of transfers is called into question by the findings of Gordon Tullock that the vast majority of income transfers in the United States are not from rich to poor but rather within middle income groups (1970).

A further attempt to extend the Pareto analysis was contained in the principle of potential compensation. This notion held that a reallocation of resources which resulted in some individuals being better off and some worse off, is Pareto superior if the gainers could compensate the losers while themselves remaining better off. Note that the compensation is not actually paid, for then the Pareto criterion would hold, since no-one was worse off. The potential compensation criterion, also known as the Kaldor-Hicks criterion since it was derived by these economists, suffers from a major weakness, initially noted by Scitovsky (Mishan, 1973). The problem arises because, as Scitovsky demonstrated, a move from allocation A to allocation B may represent a Pareto superior move while at the same time a move in reverse from B to A can be shown to be Pareto superior (Rowley and Peacock, 1972). To deal with this problem, Scitovsky proposed a stricter test which would first assess whether the initial move was superior and then whether the reverse move was. Only if a reallocation passed the first test and failed the second would the reallocation be considered a welfare improvement.

The attempts just described to extend the Pareto criteria are based, as is the criterion itself, on the assumption of perfect markets. In fact, however, instances of market failure are multiple, and these failures are often considered a primary justification for government intervention in the economy. Some primary examples are discussed below.

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II. Market Failure

A. Public Goods

One of the most commonly cited reasons for government intervention is the existence of public goods such as national defense, a police force, a fire service, or a system of property rights and the procedures to enforce them. Such goods will generally be undersupplied or not supplied at all by the free market because of certain characteristics: jointness of supply and non-excludability (Mueller, 1990).

Jointness of supply refers to a good whose production costs are fixed and which may be provided to additional persons at no extra cost. In the case of national defense, for example, it costs no more to defend one million persons from attack than one million and one. Formally, an extra unit of the good can be produced at zero marginal cost. This characteristic gives rise to a prisoner's dilemma situation, in which private incentives lead to a suboptimal provision of the resource and all parties can gain from a collective decision to provide a higher level of resources.

Non-excludability describes a situation where it is very difficult, or impossible, to efficiently exclude some persons from consumption of the good once it has been supplied to others. When a national defense system is in place it is impossible to exclude one person from the protection of that system. In the absence of government provision of these goods, incentives would exist for non-cooperative behavior such as free riding and they would tend to be under-provided or not provided at all.

To determine the efficient output of a public good requires a comparison of marginal costs and marginal benefits. In contrast to a private good, the marginal benefit is not the benefit one individual places on the good since its provision allows a potentially large number of other persons to benefit. Rather the marginal benefits of all individuals affected must be summed, giving the marginal social benefit (MSB).

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The public goods problem is illustrated graphically in figure 5. The diagram shows units of the public good on the horizontal axis and cost or benefit per unit on the vertical axis. The demand curves of two consumers are represented by DA and DB. Since tastes differ, these curves will differ. The vertical sum of these curves is the MSB. The marginal cost curve is drawn on the assumption of constant marginal costs, for simplicity, and is thus a straight line, MC. Thus the optimal level of provision of the public good is at the point of intersection of marginal cost and marginal social benefit, giving optimum output OQ. Because of the free rider problem, however, individual B has no incentive to contribute to the public good. If individual A maximizes his utility by equating his individual marginal cost and benefit, the output level he demands, output OR, will be the actual and suboptimal output.

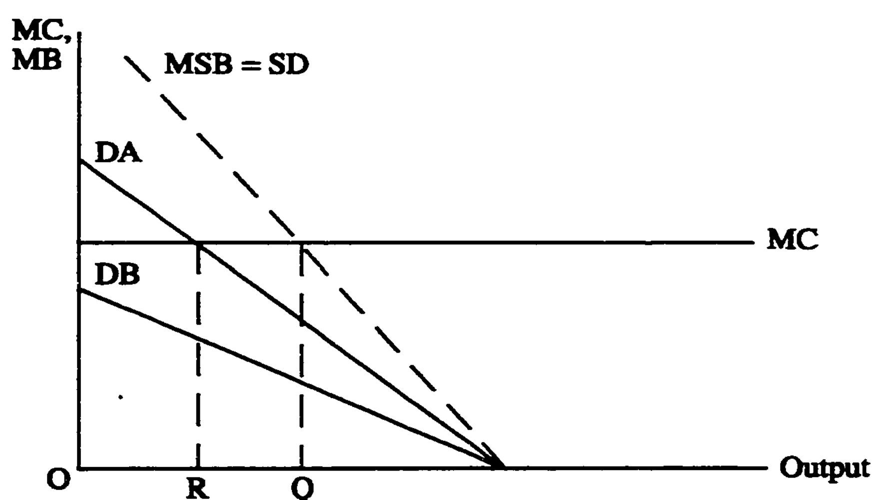

Figure 5 — The public goods problem

B. Externalities

Externalities are a further major cited reason for government intervention. An externality exists when the production or consumption activities of one individual or enterprise give rise to changes in the utility or costs of a third party. A factory polluting a stream used by others, or

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cattle straying onto a farmer's crops and damaging them are typical examples of negative externalities. Since the total social costs of the activity are not reflected in the production costs, these entities will engage in inefficiently high levels of production.

Externalities may be positive as well as negative. A citizen planting a flower garden which is then enjoyed by her neighbors, would constitute an example of a positive externality. In this case the likely result of the divergence between social and private cost is likely to be an undersupply of the good. In either case, however, since there is no price mechanism to coordinate the activities involved in the production of the externality, the outcome may not be Pareto-optimal.

An example of a positive externality is illustrated in figure 6. The competitive supply and demand curves are shown as S and D, with S again drawn horizontally, implying a constant cost industry. The demand curve represents effective market demand and the equilibrium output is at the intersection of S and D, output Q. This output does not take into account external benefits, however, which are represented by the marginal external benefit curve, MEB. This curve reflects the benefits to individuals who do not participate in this market, but benefit from the participation of others. The marginal social benefit (MSB) curve reflects both direct and external benefits, and is derived by vertical summation of the demand and marginal external benefit curves. It is clear from the diagram that while the equilibrium market output is at level Q, the efficient output, which would equate MSB with marginal cost, would be at the higher output level, Q'.

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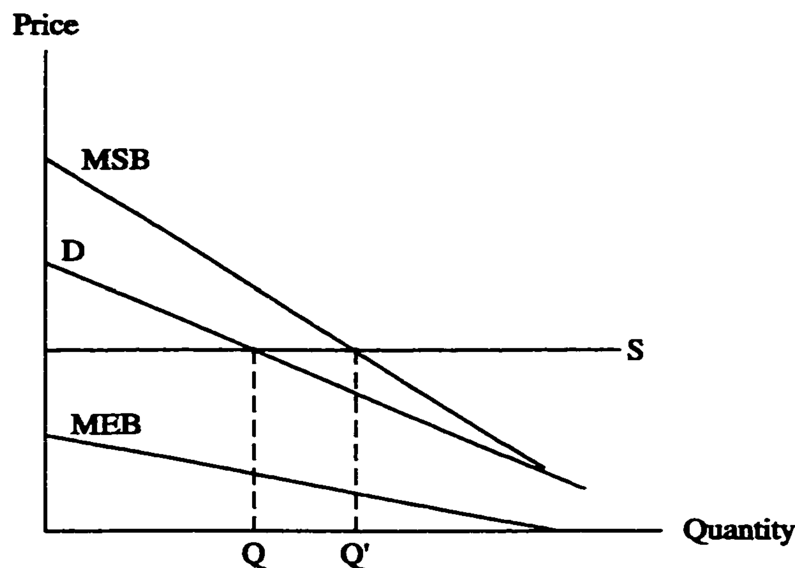

Figure 6 — A positive externality

A solution to the problem of externalities commonly associated with A. C. Pigou, was for the government to intervene to bring about a Pareto-optimal situation by, for example, levying taxes, offering subsidies, or introducing legislation to adjust the levels of the activity which gives rise to the externality (Pigou, 1920). By engaging in such activities, governments can "control the play of economic forces in such wise as to promote the economic welfare, and through that, the total welfare of their citizens as a whole" (p. 129).

A clear assumption of this policy prescription is that the government must posses all the relevant information to determine the appropriate tax or subsidy, including the responses of the entities concerned. Both the ability of the government to perform this function and the necessity of it doing so have been questioned. One of the major challenges is that offered by Ronald Coase in his seminal article, *The Problem of Social Cost* (1960).

III. The Coase Theorem

Ronald Coase argued that a Pareto-optimal outcome of externality situations could, in theory, be worked out by the concerned parties without any government intervention. Traditional

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analysis of externality problems was usually based on the treatment of Pigou in The Economics of Welfare, and regulations or taxes were the proposed solution to the divergence of social and private cost entailed by the externality. However, Coase claims that these courses of action are "inappropriate, in that they lead to results which are not necessarily, or even usually, desirable" (p. 2). Moreover, Coase argued that the achievement of a Pareto-optimal outcome was independent of the initial assignment of property rights. The Coase theorem holds that:

> *In the absence of transactions and bargaining costs, affected parties to an externality will agree on an allocation of resources that is both pareto optimal and independent of any prior assignment of property rights.*

Coase used several examples to illustrate his argument, including that of straying cattle which destroy crops growing on neighboring land. He begins by pointing out the reciprocal nature of these problems, i.e., imposing taxes on the entity creating the externality is just as much a harm to this person as the imposition of the externality is on the entity adversely affected. Given that the cattle rancher is liable for the damage caused by his cattle, he will take the costs into account in his production decisions, and not increase the size of the herd above the level at which the marginal damage cost he must pay equals the returns from the extra meat provided by an extra steer. Hence private and social costs will be brought into alignment. Coase extends the illustration to show that alternative scenarios, including the construction of fences by the cattle raiser or the payment to the farmer to reduce or cease crop production, could be predicted to result in an optimal outcome. Comparing this solution to the Pigovian solution, he notes: "A procedure which merely provided for payment for damage to the crop caused by the cattle but which did not allow for the possibility of cultivation being discontinued would result in too small an employment of factors of production in cattle raising and too large an employment of factors in cultivation of the crop" (p.6).

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Coase also examines the situation when the damaging business is not liable for costs, and shows that the allocation of resources will be the same in this case as it was in the former. In this case, however, the crop producer would make payments to the cattle raiser in order to bring about an optimal outcome. Coase concludes that:

"It is necessary whether the damaging business is liable or not for damage caused since without the establishment of this initial delimitation of rights there can be no market transactions to transfer and recombine them. But the ultimate result (which maximises the value of production) is independent of the legal position if the pricing system is assumed to work without cost" (p.8).

The argument up to this point assumed that no costs were involved in carrying out market transactions. Coase admits that this is a very unreal assumption. He notes: "In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal, and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on. These questions are often extremely costly, sufficiently costly at any rate to prevent many transactions that would be carried out in a world in which the pricing system worked without cost" (p.150). An alternative form of organization which could achieve the same result is the firm, where an administrative decision is substituted for individual bargains. Even here, however, it does not necessarily follow "that the administrative costs of organizing a transaction through a firm are inevitably less than the cost of the market transactions which are superseded" (p.16). One alternative to the firm is direct regulation by the Government, which Coase suggests, is, in a sense, a super-firm (p.17).

The government solution may also be extremely costly, however, and has additional problems. Thus, Coase notes that "there is no reason to suppose that the . . . regulations made by a

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fallible administration subject to political pressures and operating without any competitive check, will necessarily always be those which increase the efficiency with which the economic system operates." For this and other reasons, he suggests a feasible alternative is to do nothing since "it will no doubt commonly be the case that the gain which would come from regulating . . . will be less than the costs involved in Government regulation" (p.18). The appropriate policy, according to Coase, will depend on the specific details of each individual case. A pragmatic approach is called for in which the analyst examines the total social product yielded by alternative social arrangements (p. 43).

IV. Allocative Efficiency or Redistribution

The foregoing analysis has been framed in terms of the ability of the state to promote allocative efficiency and move the society from a point inside the production possibilities frontier to a point on it. For some economists this is the only valid role for the state to play. Thus authors such as Knut Wicksell maintain that government activity is justified only if it benefits all citizens and he thus promotes the unanimity rule for collective decision-making (1896).

An alternative viewpoint holds that, either in theory or in practice, a major role the state plays is that of the redistribution of national wealth. Aranson and Ordeshook, for example, regard virtually all of government activity as being based on redistribution (1981). Thus a bridge across a river benefits not only the citizens who wish to cross the river but also the contractors, engineers and other workers who construct it, and raises the income of the suppliers of resources such as concrete and steel. The businesses near the bridge have increased trade and property values increase. According to Aranson and Ordeshook, the provision of the public good is a side effect of these transfers of income and wealth.

While Aranson and Ordeshook present a positive analysis of the role of government, other economists and political scientists stress the normative aspect and suggest that redistribution

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can be justified as a means to reduce income inequality and poverty, and provide insurance against destitution. One of the most influential studies which addresses the redistributive role of government is John Rawls' *A Theory of Justice* (1971). This work considers both the outcome and the process of collective choice. The objective is to establish a set of just institutions in which collective decision-making can take place. It is nowhere explicitly or implicitly implied that the outcome of the process will maximise a social welfare function or be Pareto optimal.

Rawls develops a set of basic principals to be applied to the structure of society. These principals are "to govern the assignment of rights and duties and regulate the distribution of social and economic advantages" (p. 61). As Mueller has noted, these principals "form the foundation of the social contract , and Rawls' theory is clearly one of the major, modern reconstructions of the contractarian argument" (p. 409). The theory consists of two parts. In the first part the argument in favor of a contractarian approach is elaborated, and the characteristics of the original position at which the contract is drawn up are described. The second part focuses on the actual principals contained in the social contract.

Starting from the premise that social positions and individual attributes are distributed in a random way, Rawls holds that while this initial distribution is neither just nor unjust, in itself, it would be unjust for society to accept this random distribution or to adopt institutions that perpetuate or exaggerate the inequities therein. The objective therefore, is to establish a set of just institutions which will mitigate the effects of the initial random distribution. In order for the process to be impartial, individuals must step through a *veil of ignorance* regarding their own social position and personal attributes, i.e., they must act as if they did not have this information. After passing through the veil of ignorance, individuals are in an *original position* of total equality insofar as each has the same information about the potential effect of different institutions on his own future position. The original position thus establishes a basis of universal

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equality upon which the social contract is drawn up. The basis for passing through the veil of ignorance is thus a moral one, in the Rawlsian framework. It is founded on the argument that information about attributes, status and other factors is "arbitrary from a moral point of view" (p.72). In contrast, having once entered the original position, individuals are to act in their own self-interest. It is assumed that since all individuals have access to the same information, they will all arrive at the same conclusions regarding the just principals that should be contained in the social contract. Unanimous agreement on the terms of the social contract is a direct result of equality of individuals in the original position.

Rawls maintains that a contract drawn up on the basis of the procedure just described will contain two basic principals of justice, the liberty principal and the difference principal. The former holds that each person is to have an equal right to the most extensive basic liberty compatible with the same liberty for others. The latter holds that social and economic inequalities are to be arranged so that they are both i) reasonably expected to be to everyone's advantage, and ii) attached to positions and offices open to all (p. 60).

The liberty principal always has precedence over the difference principal, according to Rawls. He explains this as follows:

"as the conditions of civilization improve, the marginal significance for our good of further economic and social advantages diminishes relative to the interests of liberty, which become stronger as the conditions for the exercise of the equal freedoms are more fully realized. . . . as the general level of well-being rises (as indicated by the index of primary goods the less favored can expect) only the less urgent wants remain to be satisfied by further advances, at least insofar as men's wants are not largely created by institutions and social forms. At the same time, the obstacles to the exercise of equal liberties decline and a growing insistence upon the right to pursue our spiritual and cultural interests asserts itself"(pp. 542-3).

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In this view, liberty is in a sense a luxury good, the demand for which increases with increased income levels. Increased demand for liberty is paralleled with decreased urgency for other goods as needs are met through higher living standards.

In addition to the lexicographic ordering of the two principals of justice, the difference principal itself contains such an ordering, which has been the subject of highly contentious debate. The difference principal contains a lexicographic ordering of welfare in which the welfare of the worst off member of society always takes precedence over the welfare of any other individual. Welfare here refers not to a subjective notion such as utility, but rather to primary goods, defined as "rights and liberties, powers and opportunities, income and wealth" (p.62).

The process outlined above is extended by Rawls to apply not only to a preconstitutional stage, but also to the constitutional, parliamentary, administrative and judicial stages of the political process. In each stage the veil is lifted somewhat, but knowledge of specific individual positions is not allowed, thus preserving impartiality.

Proponents of Rawl's social contract theory claim that the principals derived from the original position are more likely to lead to compliance than those of competing theories. Public goods and externality theories, for example, are often plagued by free rider problems. However, H. A. Hart has demonstrated that this is not necessarily the case (1973). Hart gives the example of a farmer who has a right to exclude trespassers from his land, and a hiker who has a right to free movement. There is nothing in the liberty principal that dictates which right has priority, and thus compliance cannot be assumed.

A similar argument and counter-argument applies to the difference principal. Rawls argues that compliance with his social contract is more likely than compliance with utilitarianism on the grounds that one could not expect the poor to comply with principals that required them to make sacrifices for the rich. Under the difference principal, however, the rich are required to

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make sacrifices for the poor, a requirement with which they may not wish to comply. In short, as Mueller has noted, Rawls' social contract and his arguments in support seem to be constructed for the purpose of achieving the compliance of only one group, the worst-off individuals.

A further important criticism of Rawls' theory has been made by Robert Nozick (1974). Nozick points out that, "A procedure that founds principals of distributive justice on what rational persons who know nothing about themselves or their histories would agree to *guarantees that end-state principals of justice will be taken as fundamental*" (italics in original) (p.95). Nozick argues that given so little knowledge about the processes of social and economic interaction, individuals are compelled to ignore any principals that would govern such procedures and focus only on final outcomes.

Nozick goes on to claim that "people meeting together behind a veil of ignorance to decide who gets what, knowing nothing about any special entitlements people may have, will treat anything to be distributed as manna from heaven" (p.95). The question of entitlements is of fundamental importance to Nozick and forms an integral part of his theory of distributive justice. His own theory is that "the holdings of a person are just if he is entitled to them by the principals of justice in acquisition and transfer, or by the principal of rectification of injustice. . . If each person's holdings are just then the total set (distribution) of holdings is just" (p. 49). This theory, in sharp contrast to Rawls' theory, focuses on the processes whereby a particular distribution came about. If holdings were acquired justly, the holder is entitled to them, regardless of the holdings of any other individual.

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CHAPTER 2

THE PUBLIC CHOICE PERSPECTIVE

In the traditional, organic view of the state outlined in the previous chapter, the government is a benevolent actor instituting policies to correct market failure or public good problems or to obtain a Pareto-optimal allocation of resources. As noted in the previous chapter the Pareto criterion focuses on economic efficiency, does not address allocation decisions per se, and could lead to an allocation that is not strictly preferred by any single voter. The traditional viewpoint was challenged beginning in the late 1950s by a number of economists who took a very different perspective reflected in the public choice literature.

The public choice perspective takes the rational choice model characteristically applied in the economic field and applies this to decision-making in the political arena. Political actors are assumed to behave in a rationally consistent manner that leads to predictable decision-making processes and predictable outcomes. In contrast to traditional public sector economics which viewed the government as a tool for achieving allocative or distributive ends, public choice research sees the government and its various constituent members as actors in their own right, with their own rational objectives. Thus, legislators, voters, bureaucrats, members of the judiciary, special interest groups, and any other persons engaged in the political process are the subject of public choice analysis, both in regard to their rational choices and the institutions within which these choices are made (Black 1948, Buchanan 1949, Downs 1957, Buchanan and Tullock 1962, Stigler 1965, Peltzman 1976 and 1990, Olson 1965, Becker 1983).

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This chapter and the following chapter summarize the major contributions of public choice theory to the legislative process and the enactment of legislation such as that contained in the new welfare law (Public Law 103-184, the Personal Responsibility and Work Opportunities Reconciliation Act 1996). Section I examines the Median Voter Theorem, upon which much subsequent work was based, and discusses theoretical and empirical criticisms of this model. In Section II the discussion is broadened to incorporate a more complete institutional perspective. The behavior of voters, and specifically the existence of rational ignorance, is shown to provide opportunities for interest groups and bureaucrats to influence the legislative process and engage in rent seeking activities such as creating and appropriating larger federal budgets for welfare related programs. Since welfare programs are often considered 'ideological', or based on considerations of equity rather than economic efficiency, the role of ideology in the legislative process is also examined.

I. The Median Voter Theorem

A. The Basic Model

One of the pioneering works in the field of public choice was Duncan Black's seminal work on committee voting procedures, which is the foundation for the median voter theorem, and a great deal of subsequent scholarship which applies economic tools of analysis to political institutional processes (1958).

In contrast to the earlier focus of economists such as Bergson (1938) and Samuelson (1947) on deriving aggregate social welfare functions that could be maximized for the good of society by a benevolent government, and Arrow's (1951) proof that such an exercise was futile, Black focused attention on the actual procedures for aggregating preferences via voting rules. For the first time a schema was developed within which majority voting did not necessarily lead to paradoxes such as cycling. Black showed that, under specified conditions, majority rule will lead

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to equilibrium outcomes that will coincide with the preferences of the median voter. To arrive at this conclusion, however, required a number of assumptions, which have been the subject of a great deal of criticism in the economics literature.

Black begins his argument by supposing that "a decision is to be determined by a vote of a committee. Proposals are advanced . . . in the form of motions on a particular topic or in favor of one of a number of candidates" (1948, p.133). For convenience he confines the discussion to motions rather than candidates. He then assumes that "each member of the committee ranks the motions in a definite order of preference" (p. 133) and that "he votes in accordance with his schedule of preferences" (p. 134).

Black claims that "while a member's preference curve may be of any shape whatever, there is reason to expect that, in some important practical problems, the valuations actually carried out will tend to take the form of isolated points on single peaked curves" (p. 135). This assumption becomes central to the ensuing analysis. Other critical assumptions are that decisions are made by majority vote, and that in the voting each motion is put against every other motion.

The method of reasoning employed by Black is illustrated in figure 7, which shows the preference curves of five members of a committee. The highest point of each curve represents the member's optimum or most preferred outcome. It can be shown that voting on any two points below the median, O3, will always result in a majority vote for the point closest to the median since this will always lie on a higher part of the preference curve for all curves to the right. Similarly, voting on points above the median will lead to a majority for the point closest to the median since that point will lie at a higher point on the preference curves to the left. Thus, in a simple majority vote, the motion corresponding to the median, O3, will be the one that is adopted by the committee.

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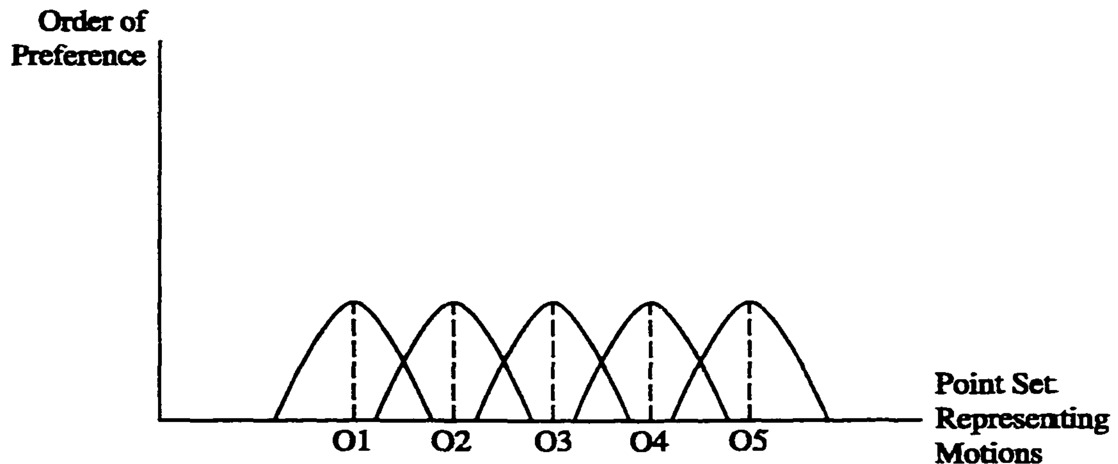

Figure 7 — Preference curves

Black's median voter theorem was further developed and extended by Anthony Downs in *An Economic Theory of Democracy* (1957). Stimulated in part by Arrow's impossibility theorem, and building on the foundations laid by Black, Hotelling (1929), and Smithies (1941), Downs demonstrated that competition among parties to win votes could lead to an equilibrium outcome of the political process analogous to competition among firms in the market process. The Hotelling model assumed that people were evenly spaced along a continuum of preferences from left to right on the political scale, and led to the conclusion that competition in a two party system would lead to convergence as each party attempted to obtain more votes by moving along the scale towards its ideological opponent. Smithies introduced the notion that complete convergence would be constrained by the fear of losing supporters at the extremes. Downs introduces into this model a variable distribution of voters, relative ideological immobility and peaked political preferences. The Downs model confirms Hotelling's conclusions, but suggests that convergence depends on a "unimodal distribution of voters with low variance and most of its mass clustered around the mode" (p. 140). Where these conditions are absent, several parties can coexist and there is no automatic tendency for convergence at a median voter position.

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The Downsian model moves beyond the committee decisions which were the focus of Black's work, and considers the government as an institution made up of individuals such as representatives, bureaucrats and voters, each of whom faces his own constraints and objectives in pursuit of his own self-interest. Downs assumes that political parties and voters act rationally in the pursuit of certain specified goals. The analogy to economic analysis in which consumers and producers are assumed to act rationally in the pursuit of utility and profits is clear. Pursuing the analogy of the market, Downs demonstrates that competition among parties to win votes can have similar beneficial effects in political markets to the effects of competition among firms in economic markets.

A basic tenet of Downs' model is "that the government exists in a democratic society where periodic elections are held, that its primary goal is reelection, and that election is the goal of those parties now out of power" (p. 11). Formulating and implementing policies are simply means to the end of maximizing votes, and the party that receives the most votes is the one that gains control of the government until the next election. Downs assumes that party members are motivated by "their personal desire for the income, prestige and power which come from holding office" (p.34) and that the electorate consists of rational voters. When applied in the political arena, the assumption of rational self-interest leads to the hypothesis that "parties formulate policies in order to win elections, rather than win elections in order to formulate policies" (1957, p. 28).

One of the major contributions of Downs' work is his discussion of "rational ignorance" -- the concept that a rational self-interested individual who maximizes utility will not necessarily find it in his interest to become rationally informed regarding issues or candidates. In a world of perfect certainty and knowledge, the rational voter would estimate the expected utility from a government controlled by alternate parties and, assuming the difference was greater than the cost

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of voting, vote for that party which provided him with the highest level of utility. With imperfect knowledge and uncertainty -- which are integral to the Downs model -- the voter must incorporate the costs of becoming informed, which may be substantially higher than any expected utility gain. Moreover, the existence of imperfect information and uncertainty "leads to attempts at persuasion by men who provide correct but biased information," according to Downs (p. 94). (Clearly it can also lead to persuasion by men who provide very incorrect information.) Thus, uncertainty opens the door to competition among political parties who wish to influence the electorate, as well as interest groups (who claim to represent popular will) and favor buyers (who represent themselves) both of whom want to influence both government and the electorate. The information disseminated by these groups comes at a price, as Downs notes; "they get an influence over policy formation greater than their numerical proportion in the population" (p.95).

The existence of uncertainty in the political process is also important, according to Downs, in that it contributes to the adoption of party ideologies as a means whereby parties can gain the support of various social groups without estimating returns from specific policies. Similarly, party ideology gives voters an indicator of how close each party is to their own view of a good society, thus shortcutting the necessity to examine the parties' individual policies on issues. In order for this process to work, party policies have to consistently follow party ideology, occasionally leading to conflict with the ultimate goal of maximizing votes. However, as Downs notes, his hypothesis is upheld as long as "parties behave most of the time as though election is their primary objective" (p.113).

B. Critique of the Median Voter Model

A large body of critical literature has developed around the median voter model, both theoretical and empirical. The theoretical criticisms focus on the implications for the median outcome of dropping some of the assumptions, including unimodal and symmetric preferences

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and voting by all voters, while the empirical analyses deal primarily with methodological problems in the empirical studies (Rowley, 1984, Romer and Rosenthal, 1979).

A detailed critique of the theoretical literature is contained in "The Relevance of the Median Voter Theorem," by Charles Rowley (1984). This paper reviews the implications of the spatial theory for generality, realism and predictive power by reference to the existence, uniqueness and stability of the equilibrium generated by the median voter model. Concerning the existence of equilibrium, the author notes that political elections tend to be held several years apart, and where votes are the equilibrating mechanism, once a position no longer represents an equilibrium, many years may pass with no possibility of movement toward a new equilibrium. Rowley concludes that "discontinuity (of elections) poses an insuperable problem of reconciliation for those who assess relevance by the criteria both of generality and of realism" (p.110).

Additional problems with the concept of existence of equilibrium in the model relate to the paradox of voting and the problem of identifying issue dimensions. In the case of the former, Rowley points out that "if the vote mechanism collapses, political equilibrium will not exist and the spatial approach will be rendered empty" (p. 111). Since a majority of the population do in fact vote, this is not so much a problem for realism in the model as it is for generality, since there is no generally accepted explanation for the voting paradox.

The most intractable problem for the median voter theorem, according to Rowley is identifying issue dimensions. While the Downsian model is generally presented in terms of choices along a unidimensional ideological issue space, Davis, Hinich and Ordeshook (1970) claimed that spatial theory must allow for multi-dimensional issue space if it is to retain descriptive and predictive power. The practical difficulties of identifying and measuring issue dimensions are considerable, however. Moreover, as Rowley notes, "the ability to ascertain and

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to order voter preferences along a set of issue dimensions presupposes a very considerable facility in the conceptualization and measurement of attitudes within a common multidimensional issue space" (p. 112). After undertaking considerable research, Hinich eventually concluded that voters collapse issue space into a single liberal-conservative issue space, turning to secondary dimensions only when candidates or parties are indistinguishable using the primary categorization (1978). Rowley summarizes the problem by noting that "it is not even clear either that the relevant issue dimensions can be isolated or that the voter loss metric which relates party preference to party issue space position can be identified" (p.114). He concludes that, "In such circumstances spatial theory looks extremely suspect, whether judged by criteria of generality, of realism or of predictive power" (p. 114).

Even where an equilibrium could be posited to exist, there remain problems of uniqueness and stability. Rowley demonstrates that uniqueness is highly sensitive to the assumptions of the Downsian model. When the assumptions of all voters voting is relaxed to allow some voters to abstain through alienation, uniqueness of the equilibrium "is rendered doubtful," while the existence of multi-party competition may give rise to strategic voting which would also confound the median voter equilibrium solution (p. 117). The problem of instability where preferences are not single peaked was noted by Downs himself, who pointed out the possibility of cycling among alternative preferred voter positions. Rowley notes that this problem intensifies as the issue dimensions expand, which can result in cycling over the different dimensions even though preferences within each dimension may be single peaked. The result will be instability of equilibrium in the multidimensional space (p. 119).

The numerous theoretical difficulties of the median voter model have not deterred its use in a wide range of empirical studies. Some of the limitations of the model are, however, implicitly illustrated by the fact that many of these studies chose issues which avoid the areas of weakness.

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The problem of unidimensional issue space, for example, is easily circumvented by choosing a single issue election, and single issue candidates, as is the case with school board elections and school funding.

Empirical models used to test the median voter theorem generally assume that voters maximize utility subject to a budget constraint that incorporates their tax price for the public good in question. Thus, demand by the median voter for the public good is a function of median income, median tax price and a " 'vector of taste parameters' (number of children, Catholic or non-Catholic, etc.)" (Mueller, p.190, 1989).

This model is generally tested using cross-sectional data on local expenditures for the public good being studied. Randall Holcombe, for example, uses data at the school district level for 257 Michigan school districts, and finds that the theoretical median voter model which he develops in the paper provides a good explanation of empirical reality (1980). Similarly, Denzau and Grier claim support based on their analysis of data on New York school districts (1984). Other studies have modeled municipal expenditures in ten American states (Bergstrom and Goodman, 1973), school expenditures in Long Island (Inman, 1973), school expenditures in Connecticut (Lovell 1978), and a number of studies have tested the model using data from Switzerland (Pommerehne and Frey, 1976, Pommerehne, 1978, Pommerehne and Schneider, 1978). In addition, as Romer and Rosenthal note, assumptions leading to median voter dominance have been employed to incorporate political processes in a wide range of economic contexts, including pollution control, income redistribution, minimum wage legislation and union behavior (1979).

While most of these studies claimed support for the median voter theorem, an extensive review of the empirical work based on the median voter model undertaken by Romer and Rosenthal (1979) concluded that the studies examined failed to indicate that actual expenditures

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corresponded to those desired by the median voter. While admitting that the empirical studies generally show that "operational measures" of median income and median tax price can statistically account for expenditures, the level of desired spending may in fact not be that actually desired by the median voter, but instead a multiple of this level. The Barr and Davis study is illustrative of this point (1966).

In their original study, Barr and Davis assumed identical tastes, and initially identical incomes (although this assumption was later dropped) for voters in a cross section of Pennsylvania counties. Thus the median voter in one county would differ from his counterpart in another only in effective tax price. As a surrogate for tax price the authors used assessed property values per capita and owner occupied residences per registered voter. The statistical results were as hypothesized with high tax prices leading to low expenditures. As Romer and Rosenthal note, however, the fact that expenditures rise as price falls does not mean that expenditures are at the level preferred by the median voter; they could be 50% less or 100% greater than those desired by the median voter (p. 148). This is what the authors term the "multiple fallacy".

Romer and Rosenthal also point out the possibility of what they describe as the "fractile fallacy" (p. 148). This exists because there is nothing in the model which provides evidence that the use of the median gives superior results to the use of the mean, the 25th, the 75th or any other percentile. In the same vein, these authors also noted that the median voter model is rarely tested against alternative theoretical or statistical models that might provide alternative and superior bases for the phenomena being analyzed.

One of the strongest arguments Romer and Rosenthal present against the use of median voter models is that even if the median voter is pivotal, the outcome of any policy decision may not be that which would be preferred by this voter. That this may be the case was suggested by two studies that examined voting in referenda for budgets proposed by a school board against

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specified reversion levels (Barkume, 1976, Rubenfield, 1977). In this case the median voter does not necessarily have the choice of his preferred expenditure. If political institutions are such that the ideal point is not placed on the ballot, those institutions can thwart the will of the median voter.

Romer and Rosenthal conclude that "expenditures depend not only on the preferences of voters but also on the structure of political institutions" (p. 174). They suggest that the presence of bureaucratic threats can result in expenditures significantly in excess of those desired by the median voter, and point to the practice of school boards which can propose alternative budgets, none of which represent median voter preferred spending levels. As supporting evidence for the relevance of institutional factors they note that while the simple median voter model has the best fit for direct democracies, a model that incorporates variables for the complexity of the revenue system and for the time before the next election greatly improves the fit for models of representative democracy (p. 191). Complex revenue systems lead to significantly higher expenditures, and the more time before an election, the greater the expenditure. Both variables reflect information cost problems, and the authors suggest that the town meeting and frequent referenda of direct democracy serve to keep citizens better informed and to allow for a free amendment process. This line of reasoning suggests that governmental agencies or bureaus may seek to maximize budgets, a proposition which is strongly supported in the work of Niskanen, discussed in detail below (1971).

The weaknesses of the median voter theorem outlined above limit the usefulness of this construct in analyzing the political decision-making process and policy outcomes. This lacuna is partially filled by the new institutional economic approach which attempts to "analyze the behavior of incumbent governments and their opposition not merely at the point of election but throughout expected life both in and out of office, within the specific constraints of the

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constitution they inherit, and subject to all the self-seeking pressures to which they are exposed" (Rowley, 1984, p.125). A key component of this area of study is the behavior of voters, upon whom the other agents are dependent for their positions and power.

II. The New Institutional Economics

A. Voters, the Paradox of Voting, and Rational Ignorance

The behavior of voters and specifically the paradox of voting casts doubt on the robustness of models which assume voters are fully informed and rational. As Downs (1951) and later Riker and Ordeshook (1968) have noted, rational behavior will normally lead to non-voting and yet most of the population does vote. The argument is based on a simple calculus of expected costs and benefits, which can be expressed as

$$R = (BP) - C$$

where

R is the reward or utility a voter receives from the act of voting,

B is the differential benefit the candidate receives from the success of his more preferred candidate over his less preferred one

P is the probability that the voter will, by voting, bring about the benefit, B, and

C is the cost to the individual of the act of voting

Clearly where there is a large number of eligible voters, the probability of any one being decisive is extremely small. Riker and Ordeshook suggest that for a national election in the U.S. P might be 10^{-8}, for example (1968). Since this would render the term BP in the equation very small, and since the costs of voting, including time spent becoming informed of the voting choices, time spent going to the polls etc., are generally significant, the value of R is generally assumed to be negative. Thus making it irrational for the voter to vote.

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Several explanations have been proffered for the apparent paradox of voting. Most of these claim that voters are motivated by a consumption or investment motive. Riker and Ordeshook, for example, stress the former. They claim that voters gain satisfaction or utility from "compliance with the ethic of voting", "affirming allegiance to, and efficacy in, the political system", and "affirming a partisan preference", as well as social satisfaction from becoming informed and the act of going to the polling booth (p. 28). This argument is analogous to that of Downs who argued that voters vote in order to preserve the political system (1957). Unlike Riker and Ordeshook, however, Downs felt that their decision was independent of their own short run gains and losses.

An alternative explanation for the voting paradox is offered by Barzel and Silberberg, who consider marginal rather than average probabilities in the voting calculus (1973). Estimating an econometric model of voter turnout in gubernatorial elections, these authors find that voter turnout increases the greater the probability of a vote being decisive. They conclude that voter turnout can in fact, "be explained, in part, on the basis of rational, wealth maximizing, behavior on the part of the electorate" (p.51).

George Stigler pursues a similar line of argument, suggesting that "if election outcomes are *not* all-or-nothing (forty-nine percent is defeat) and instead influence is a monotonically increasing function of vote share, then the probability that one's vote will make a difference is *unity*, not some infinitesimal fraction" (1965, p. 104). Noting further that additional votes may give a party additional influence, Stigler concludes that the investment motive is far more convincing that the consumption motive as an explanation of the voting paradox (p. 104). In a sense, however, the issue of what motivates the act of voting is moot. The fact is many citizens do vote.

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Of greater interest and significance for the political process is the behavior of voters after arriving at the booth, and specifically the degree of rationality in their actual vote. Given that they are going to vote, for consumption, investment or whatever other reason, the question arises as to how the calculus is made regarding the costs and benefits of voting on a specific issue or for a specific candidate. Clearly, this involves estimating the expected costs of gathering information on candidates or policies and the expected costs or benefits associated with a particular incumbency or implementation of a particular policy.

A rational choice model would clearly imply an inverse relationship between information costs and the degree of rationality in a particular vote. In order to make a rational voting decision, a voter needs to obtain and process information regarding the potential costs and benefits that will accrue to him as a result of alternative outcomes of a specific vote. The more accurate assessment he wishes to make, the more information he will require and the more information processing he will need to undertake, hence the more costly the process will be. Assuming the equimarginal principal applies, a rational voter will invest in such activities up to the point at which the expected return per dollar (or dollar equivalent unit of time) spent in information gathering and processing activities is equal across issues or candidates. Thus, where the potential returns are high, the voter is likely to invest significantly more and be far better informed than when he has little at stake. Similarly, if the costs of obtaining information on certain issues are relatively less costly, the voter is likely to obtain more information, since he will equate marginal return per dollar.

This line of analysis has several important implications. In the first place, it implies a continuum of rational ignorance rather than the binary approach often found in the literature. In the second place it suggests that voters will be better informed about local issues than national ones, since national sources of information are supplemented by local media, local informational

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agencies, and personal contacts and experiences, thus generally making information on such issues more readily available. Thirdly, it implies that voters will be relatively better informed, and thus vote more rationally, on issues such as inflation and unemployment which are well covered by the media and other information sources, thus providing cheaper information.

What evidence is available to support the foregoing hypothesis? A number of empirical studies suggest that voters remain "rationally ignorant" of both issues and candidate positions in elections (Mueller, 1989). D. E. Mayhew, for example, carried out a survey in which he found that "only about half the electorate, if asked, can supply their House members' names" (1974, p.49). This result has been interpreted as showing that voters are not rational. However, our theory would suggest that voters have no incentive to learn the names of candidates unless those candidates took positions that would result in a significant gain or loss for the voter.

A notable study by Peltzman concluded that voters are highly efficient in their use of information on unemployment and inflation (1990). In this model voters accurately distinguished permanent from transitory effects, ignored irrelevant information and used all information that was relative. This high degree of efficiency or rationality is consistent with our argument that voters will exhibit a high degree of rationality in voting on those issues which directly affect them and for which information is readily available. Inflation and unemployment data are readily available through the media and households have direct experience of these issues both as consumers and employees and are directly affected by them. Hence rationality is likely to be far greater on these issues than, say, national defense or transfer programs which do not directly affect an individual voter.

The greater the degree of rational ignorance, the greater are the possibilities for lobbyists, interest groups, bureaucracies and others to influence the political process to their own advantage. From the point of view of these groups, potential opposition costs are minimized when the costs

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of a particular policy are spread over a large number of voters, and information regarding these costs is difficult or costly for the voter to obtain. Additional evidence for the equimarginal rational voting model is thus suggested by the phenomenon of government subsidization of special interest projects at the expense of the majority of voters. Clearly, if the cost of subsidizing the few is spread over many voters, there is little loss to any individual and little incentive to become well informed. Moreover, the existence of fiscal illusion renders the information costs high, thus further reducing the incentive for the voter to become well informed (Oates, 1988).

The existence of rational ignorance thus plays an enabling role in the development of public policies. To the extent that all the agents involved are rational self-interested individuals, they will seek policies that result in personal gain. For legislators this is assumed to be votes and the support of special interest groups. Since the interest groups generally comprise a minority of voters, whose gains are at the expense of the majority of tax-paying citizens, lack of knowledge or interest on the part of voters is requisite for passage of legislation favoring the minority group. The role of interest groups and the mechanisms whereby policy may be influenced by them, is further discussed below.

B. The Role of Interest Groups

The role of interest groups has been modeled, *inter al.*, by Mancur Olson (1965) and Gary Becker (1983). Olson's basic premise is that members of interest groups are rational decision-makers and will only contribute to such a group if the benefit they receive is greater than the cost of contributing. Thus, even if all the members of a group would gain from the achievement of a group objective it does not follow that rational members of the group would act to achieve these ends. In fact it would be inconsistent for rational self-interested individuals to act to achieve their group interests in the case of large groups. This is so because "the achievement of

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any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group" (p. 15).

A public good has two basic characteristics, non-excludability and jointness in supply. Olson focuses on the former which he defines as "any good such that, if any person X_i in a group $X_1, \ldots X_i, \ldots X_n$ consumes it, it cannot feasibly be withheld from others in that group" (p. 14). Since any individual in the group can enjoy the group benefits whether or not he has contributed, the rational self-interested individual will not act to achieve group benefits. Moreover, "even if the member of a large group were to neglect his own interests entirely, he still would not rationally contribute toward the provision of any public or collective good since his own contribution would not be perceptible" (p.64).

Large groups must, therefore rely on alternative strategies to attract members. A large group can attract participation through the use of "an incentive that operates, not indiscriminately, like the collective good, upon the group as a whole, but rather selectively toward the individuals in the group" (p. 51). Selective incentives may be negative, such as the coercion used by some union groups, or positive such as the provision of publications, insurance, social and other activities provided by groups such as the American Association for Retired Persons (AARP). Where membership relies on these incentives, lobbying is, in a sense a by-product.

The case of small groups is both qualitatively and quantitatively different from that of large groups according to Olson's theory. Olson shows that some small groups can provide themselves with a collective good without the use of selective incentives or coercion. This will be the case if at least one member of the group finds that his personal gain from having the collective good exceeds the cost of paying for it. This line of thought leads to the implication that groups with the greatest inequality in potential benefit are most likely to be able to provide the

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good since the greater the interest of any single member, the greater the likelihood that it will be profitable for him to provide it. A further result of this tendency is what Olson describes as the "exploitation of the great by the small", i.e., those members who have a smaller share in the benefits have incentives to free ride and take advantage of the investments of the member with the larger share (p. 35).

An additional feature of small groups which facilitates action to obtain collective goods is the potential for social pressure. In groups which are small enough that the members know one another social pressures may lead to participation, even though the individual would otherwise rationally choose not to act in the group interests.

Among the most influential of the groups to affect welfare policies are the AARP, which has successfully lobbied for more programs for the elderly, and the AMA, which has successfully lobbied against health insurance. Both of these organizations fit quite well into the Olson theory, for while they are both large organizations, they each provide numerous individual benefits to members. The AARP provides several types of insurance and a wide range of reduced price goods and services to its members, in additional to newsletters keeping them informed of proposed legislative changes and how they would be affected. The AMA also provides insurance, research, and legislative and other information to its members.

The AMA, however, has been suffering a decline in recent years in terms of the percentage of doctors who participate. This phenomenon illustrates a lacuna in Olson's theory. He does not adequately address the issues of growth or decline of groups. Nowhere, for example does he describe how a small group, which he claims is qualitatively different from a large one, turns into that large group. Conversely, he does not explain the decline over time in the influence of groups. One potential cause in the case of the AMA is the competition from other organizations offering similar products to the selective incentive. Presumably, any lobbying

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group is of necessity at a disadvantage vis-à-vis a private enterprise which does not have to fund lobbying activities out of its resources, and thus could offer the same "benefit" at a lower price (Stigler, 1974). Clearly this is an empirical question, which cannot be fully addressed here. However, the question of competition between interest groups is discussed below.

In addition to problems with explaining dynamic processes of groups, Olson's theory fails to adequately deal with certain classes of large groups such as welfare advocates, and civil rights groups, which neither use coercion nor provide selective goods or services for their members. According to the Olson thesis then, their members are acting irrationally. Yet clearly such groups have flourished at different times in the history of social welfare.

An alternative theory of interest groups is that of Gary Becker who claims that "Individuals belong to particular groups . . . that are assumed to use political influence to enhance the well-being of their members" (p. 372). In this model optimization is at the level of the group rather than the individual, and the optimal expenditure by the group on influence-gaining activities will be equal to the returns from such activities at the margin. The results of competition between groups for political influence will, according to Becker, be an equilibrium structure of taxes, subsidies and other political favors.

Becker assumes two homogenous groups, taxpayers (t) and subsidy recipients (s), and a balanced budget in which total taxes (net of deadweight costs) equal total subsidies (also net of costs). The amount raised by all taxes on t can be written as

$$S = n_t F(R_t)$$

where n is the number of members of t, and R is the taxes paid by each member. The function F is the revenue from a tax of R and incorporates the deadweight costs that result from the "distorting effects of taxes on hours worked, investments and other taxpayer choices" (p. 374). Similarly, the subsidy to each member of s is given by:

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$$n_s G(R_s) = S = n_t F(R_t)$$

that gives the budget equation, and in which ns is the number of members and Rs is the subsidy to each member. G is the cost of providing Rs and incorporates the deadweight costs from the distorting effects of subsidies on hours worked, investment and other choices by recipients.

The amount raised in taxes is determined by an influence function, and influence is itself a function of pressure (p) exerted by the two groups as well as other, unspecified, variables (x):

$$n_t F(R_t) = -I^t(p_s, p_t, x)$$

Likewise the amount available to subsidize s is determined by an influence function;

$$n_s G(R_s) = I^s(p_s, p_t, x)$$

The assumption on the budget equation gives the result that the aggregate influence of the two groups is zero, and so the political game is "zero-sum in influence and negative-sum in taxes because of deadweight costs" (p. 376).

The deadweight costs that Becker introduces into his model reflect the distortions that are caused by taxes and subsidies. These have an asymmetric effect on taxed and subsidized groups, since taxed groups will be adversely affected by the additional expense, and thus stimulated to exert increased pressure, while subsidized groups are less affected since their subsidy is reduced by the deadweight loss. The implications of Becker's analysis are that politically successful programs are efficient, and that competition among pressure groups favors efficient methods of taxation since both groups are better off when deadweight costs are reduced.

One of the major criticisms of the Becker model relates to its dependence on several quite stringent assumptions. A fundamental assumption is the political budget equation, in which taxes must equal subsidies net of deadweight costs, which implies that the net influence of pressure groups is zero. It is difficult to reconcile this conclusion with the huge budget deficits throughout

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most of the 1980s and early 1990s which suggest a rather large imbalance between taxpayers and subsidy recipients. Of course it could be argued that the current efforts to balance the budget are precisely what Becker foretold, and the previous years merely represented movement towards this equilibrium. But it is difficult empirically to conclude that taxpayer clout has undergone such a major transformation in the past few years. A long period of strong growth in the economy and the end of the Cold War would seem to be more likely places to look for causes of a balanced budget.

Similarly problematic for the Becker thesis is the growth in the overall size of government. If competition among interest groups leads to efficiency, and if the taxed and subsidized groups are zero-sum in influence, then whence the growth in government? Competition should lead to decreases in deadweight costs, as the most efficient groups are most successful in exerting pressure, and thus a decline in the size of the government sector. Becker's theory nowhere explains from whence comes the pressure for increases in *total* government spending, as opposed to spending on individual programs, as a result of group influence. Casual empiricism seems to indicate a positive-sum result to the process. (See Stigler, 1988.)

A final difficulty with this model is the focus on the group rather than the individual. In Olson's model the individual calculus of cost and benefits is the driving force and constitutes a fundamental reason for groups acting, or failing to act, in the collective group interest. This is ignored by Becker who simply assumes that "individuals belong to particular groups", without articulating the decision-making process (p. 372). Relatedly, Becker attaches very little importance to free riding, claiming that the emphasis on free riding in many discussions of the effectiveness of pressure groups is a "little excessive" because political success is determined by the relative, not absolute, degree of control over free riding (p. 38).

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The relative merits of the alternative theories of interest group behavior for understanding the legislative process vis-à-vis welfare policies is further developed below. However, before dealing with this issue it is necessary to note that the effectiveness of such groups in obtaining their demands from legislators may be enhanced or constrained by the federal or local bureaucracies involved at certain stages in the formulation and implementation of such policies. A rational choice model would clearly suggest that where the objectives of these two groups coincide, a legislative initiative could be expected to be highly effective. Where the groups have conflicting objectives, however, compromises could be expected. Further, in analyzing the role of bureaucracies, it is crucial to recognize that they too, can be considered a species of interest group. The role of the bureaucracy is discussed in more detail in the next chapter, which also analyzes the role of the legislative branch and the Presidency. Before turning to these issues, however, this chapter explains the rent-seeing process and the influence of ideology in the legislative process.

C. Rent Seeking

The practice of rent seeking was first analyzed by Gordon Tullock in *The Welfare Costs of Monopolies, Tariffs and Thefts* (1967). Tullock's basic insight was that if there are monopoly profits to be gained, a monopolist will invest resources in acquiring these profits, which resources constitute a social cost in addition to the welfare cost of the monopoly. Thus, in figure 8, triangle L represents the efficiency loss due to monopoly, and traditionally, rectangle R was considered merely a transfer from consumers to producers. Tullock, however, pointed out that a rational monopolist would be willing to invest resources up to the value of R to obtain this monopoly. To the extent that these resources could have been employed productively elsewhere, such a use constituted a social welfare loss.

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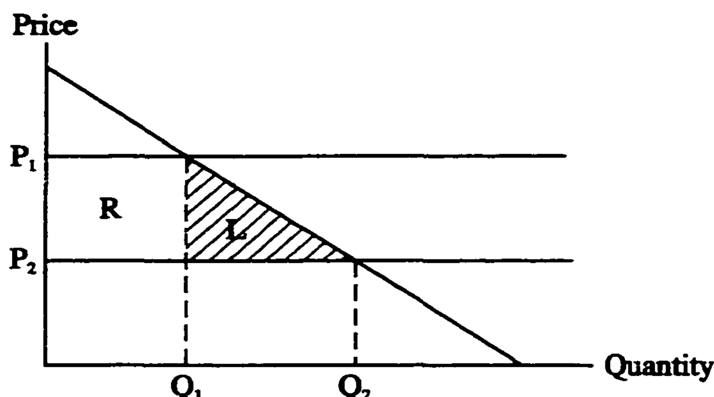

Figure 8 — The cost of rent seeking

The rent creating powers of government and the rent seeking efforts of the private sector in the area of government regulation were analyzed by George Stigler (1971). Stigler's central thesis is that, in contrast to the traditional view which holds that regulation is primarily a method of protecting consumers, regulation is in fact "acquired by the industry and is designed and operated for its benefit" (p. 3). Since the state has a unique power to coerce, in the form of taxing and regulating citizens, it can be utilized by industry to increase profitability. Stigler contends that there are four types of policies which an industry may seek: 1) cash subsidies (often not sought because they would have to be divided among an increasing number of competitors), 2) control over entry by new rivals, 3) policies which affect complements and substitutes (support production of the former and suppress the latter), and 4) price controls which will allow price discrimination (p.3-4). In return for granting these regulations, the politicians receive votes and resources, including campaign contributions, contributed services, and educational campaigns on certain issues. These constitute rent seeking costs for the industry seeking the regulation.

Stigler undertakes an econometric analysis of the trucking industry to examine his thesis that regulation primarily benefits the regulated industry and finds strong statistical support. The evidence is less clear in his analysis of occupational licensing.

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Building on the foundation laid by Stigler, and noting that what is basically at stake in regulatory processes is a wealth transfer, Sam Peltzman developed a model of wealth transfers incorporating both producers and consumers (1976). In this model control of regulation or taxation rests on direct voting, and the beneficiary pays with votes and dollars. The regulator politician seeks to maximize his majority, M, defined by the function

$$M = nf - (N - n)h$$

where n = number of potential voters in the beneficiary group

f = (net) probability that a beneficiary will grant support

N = total number of potential voters

h = (net) probability that he who is taxed (every non-n) opposes

Since gainers and losers face transactions and information costs, f and h lie between zero and unity, depending on the amount of the group member's gain or loss.

The probability of support, f, is specified as:

$$f = f(g)$$

Where g is per capita net benefit, defined as:

$$g = \frac{T - K - C(n)}{n}$$

with

T = total dollar amount transferred to the beneficiary group

K = dollars spent by beneficiaries in campaign funds, lobbying and so on to mitigate opposition

C(n) = cost of organizing both direct support of beneficiaries and efforts to mitigate opposition.

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The number of votes in support of the politician depends on n in two offsetting ways: a larger n provides a broader base of support, but it also reduces the net gain per member of the group, and so the probability of their support.

Peltzman assumes that the wealth transfer, T, is generated by a tax, t, on the wealth, B, of each member outside the benefited group

$$T = tB(N-n), \text{ or } t = \frac{T}{B(N-n)}$$

Opposition is generated by the tax rate and mitigated by voter education expenditure per capita (z), so

$$h = h(t, z),$$

$$z = \frac{K}{(N-n)}$$

In this characterization of the political process, the regulator politician must choose the size of the group they will benefit (n), the amount they will ask the group to spend to mitigate opposition (K), and the amount they will transfer to the beneficiary group (T). The results of this formalized model may be summarized as follows:

1) The size of the winning group will be restricted due to the costs of organizing and due to the fact that imperfect information renders it difficult to translate a tax into political opposition, inducing the regulator to tax the many and concentrate favors on the few;

2) If groups organize according to an economic interest (producers v. consumers) political entrepreneurship will lead to members of the losing group being included in the winning group, and

3) The winning group will not obtain the maximum possible gain from the regulation because of the activities of opposition groups. For example, the vote maximizing

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politician may favor the regulated industry's producers, but will stop short of setting prices at the rent maximizing level due to the loss in votes from utility maximizing consumers.

While the studies cited above have concentrated primarily on the industry regulation, it is clear that public goods may also give rise to rent seeking activities. As Mueller has noted, "The entire federal budget can be viewed as a gigantic rent up for grabs for those who can exert the most political muscle" (p. 243). Government contracting is one avenue of potential exploitation, and federal relief programs are another. Wallis, looking at data from the 1930s, found that large states used their numerical advantages in the House of Representatives to obtain greater shares of federal relief programs than the Senate was willing to allow them (1986). This phenomenon is considered in more detail in the context of the New Welfare Law in later chapters.

D. The Influence of Ideology

"Laws may be passed because of self-interest or because of ideology," according to Kau and Rubin (1979). In fact, it seems more plausible that many laws are passed as a result of a combination of these two motivating factors. Identifying the role of ideology in the legislative process has proved illusory, however, despite the development of a relatively extensive literature incorporating a substantial number of empirical analyses [Silberman and Durden (1976), Danielson and Rubin (1977), Kalt and Zupan (1984), Dougan and Munger (1989), Goff and Grier (1991)].

One of the earliest analyses of ideology was the study by Kau and Rubin, quoted above, which sought to measure the effect of ideology on roll call votes in the Congress. Ideology is measured in this study on the basis of a Congressman's ratings by the Americans for Democratic Action (ADA). Using 26 votes cast in 1974 and covering a wide range of issues, the authors found that in all cases but two, the ideological variable was significant. While certain problems exist with the measurement used [the authors note correctly that "economists do not have a well

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developed theory of the nature of ideology" (p.384)] and with the possibility of omitted economic variables, the strength of the results requires that the ideology variable be seriously considered in any analysis of the legislative process.

The hypothesis that ideology is a determinant of Congressional votes is also supported by the work of Kalt and Zupan (1984). These authors examine voting on strip mining issues and conclude that "the evidence thus far suggests the need for some broadening in the economic theory of politics" (p. 298). They note that ideology is "unusually difficult to identify" and is, moreover, often considered empirically unimportant. In spite of this they claim that "approaches which confine themselves to a view of political actors as narrowly egocentric maximisers explain and predict legislative outcomes poorly" (p. 279).

Other studies discount the influence of ideology. Grier and Goff claim that the empirical techniques used in studies such as those of Kalt and Zupan and Kau and Rubin are not empirically sound and thus their results are invalid (1991). Peltzman, using a different research methodology finds little support for the hypothesis that ideology is a significant determinant of voting in the Senate (1982). Anderson and Tollison conclude that while ideology played a part in the repeal of the Corn laws "there is reason to believe simple economic self-interest actually dominated" (p. 211). A similar qualified level of support is found by Nelson and Silberberg who analyze votes in the 97th Congress on defense expenditures and find evidence that ideology has greater explanatory power in general as opposed to specific expenditure bills (1987, p. 23).

A different approach is taken by Downs who sees ideology as a means for voters to economize on information: ideological reputations of politicians provide low cost measures of likely future voting patterns (Downs, 1957). Along similar lines, Dougan and Munger conclude that, "Even in a world of fully rational and non-ideological voters, there appears to be a potential

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role for ideology to play in mitigating the adverse effects of rational ignorance on legislative behavior" (p.139).

As the above discussion shows, there is no consensus on the role of ideology. If indeed it is an important explanatory variable, it could be expected that it would play a particularly strong role in an area such as welfare policies, for while some programs, such as food stamps, provide benefits to vested interests, cash transfer payments would appear to have minimal impact on such interests.

E. Relevance of Existing Theories to the Development of Welfare Programs

Traditional theories of the public sector, which view government as a benevolent dictator implementing polices to maximize the welfare of society, are fraught with difficulties both of a theoretical and empirical nature when confronted by the realities of the existing political process in the Unites States today. As we saw in the first chapter, this normative view of government does not correspond with the positive analysis of how the government carries out its business, and leaves much to be explained.

Alternative theories, which generally take a positive rather than a normative approach, are to be found in the public choice literature. Predominant among them are the median voter model and the new institutional economics. The former has contributed substantially to a more complete analysis that incorporates key institutional factors. However, it too has serious theoretical and empirical flaws, as discussed earlier in this chapter. We are left, then, with the so-called new institutional economics, which predicts rational self-interested behavior by individuals and groups who stand to gain through participation in the market for legislation. The remainder of this section examines the relevance of this approach and specifies what predictions it might lead to regarding legislation on welfare policies and programs.

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A key actor in the market for legislation is the supplier of the product, the vote maximising legislator. Other things being equal, this individual is likely to favor those individuals and groups which can deliver the most votes, directly through their own votes and those of their members, or indirectly by providing financial or organizational support, influencing the media, and so on. The purchase price of the legislation is then the expected number of votes delivered. Thus, a group such as the elderly, who have a high propensity to vote, would be expected to be able to purchase legislation providing them with government transfers more effectively than would an equally numerous, but non-voting group of children. And, in fact, a glance at the trends in cash benefits transferred to each of these groups over the past several decades provides some support for this contention.

When looking at transfer programs however, it is important to bear in mind that the ultimate, or ostensible, target recipients of such programs are not the only, or necessarily the primary, beneficiaries. In the case of health care programs, for example, such as Medicaid and Medicare, the health care and insurance interests stand to gain substantial pecuniary benefits. Similarly, food stamp programs benefit a chain of interests from agricultural producers to retail grocers. This is also true of direct cash payments to individuals, such as those issued under the new welfare program Temporary Assistance to Needy Families (TANF), which replaced Aid to Families with Dependent Children (AFDC) in 1996. The beneficiaries of such programs can be categorized into three groups: 1) special interest groups, 2) philanthropic groups and 3) altruists.

The first category, special interest groups, contains several sub-groups: 1) providers of services such as health care, child care or transportation to the welfare recipients; 2) program administrators and bureaucrats at the federal, state and local level; and 3) private consulting firms receiving contracts to evaluate the program. These groups are, in general, the most well organized and financed and stand to gain or lose substantially from the legislation. Therefore, a rational

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choice model would predict that they would be highly active and highly effective in their bid for beneficial legislation.

The second group consists of philanthropic entities, such as churches, that have a history of providing welfare benefits which long predates provision of such benefits by the state. These organizations are generally not as well-financed or organized (for political lobbying purposes, at least) as the first group, and any pecuniary gains from legislation may be less direct and less significant in terms of their overall operations. They might thus be expected to be less effective. However, such organizations often have a strong ideological component, which potentially compensates for a weaker pecuniary motive for actively seeking welfare legislation.

The final group is comprised of those altruists who, based on ideological principles, provide votes and direct financial support in order to obtain a policy which they believe in, but which is not of any direct and concrete economic benefit to them. This group may or may not have economic resources to contribute, and may have no pecuniary incentives to demand welfare legislation, but may have strong ideological motivation.

In addition to these broad groups of potential beneficiaries of welfare legislation, welfare recipients themselves stand to gain cash benefits, while legislators have at stake votes and other forms of support.

The primary potential losers from welfare legislation are taxpayers, who are generally not well-organized as a group, and may have little or no incentive to influence welfare legislation if the expected returns are less than the expected costs of obtaining and processing information on welfare legislation and participating in the political process.

Public choice theory would predict that the policy outcome would reflect the balance of influence among potential losers and gainers, and that any redistribution of resources would result in a larger slice of the federal pie going to those most capable of influencing the legislative

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process. In this view, the attributes and strategies of the various interest groups are key determinants of policy outcomes. It is necessary, therefore, to evaluate the contribution of existing interest group theories to an explanation of the development of welfare legislation.

The theories of Olson and Becker have made significant contributions to the understanding of the effect of interest group activities in the economy in general. Olson's theory serves well to relate the rational self-interested behavior to the formation of interest groups, and to show how this behavior affects groups of different sizes. His model is supported by empirical evidence of the effectiveness of certain large groups such as the AARP, relative to, for example, groups of consumers or taxpayers. Olson's model breaks down, however, in the case of one type of group which is particularly important in the study of welfare policies. Large groups such as civil rights and welfare advocates, who have been major lobbying forces for welfare policies, are generally characterized by neither selective incentives nor coercion of membership.

Olson addresses the question of such groups, which he terms ideological groups, but dismisses their importance. He notes that there is "the logical possibility that groups composed of either altruistic individuals or irrational individuals may sometimes act in their common or group interests," but, he claims, "this logical possibility is usually of no practical importance" (p. 2). To justify this viewpoint, Olson takes the example of the state. He notes that despite one of the strongest motivating factors, patriotism, the state must rely on compulsory taxation. What Olson ignores is the fact that in times of war, i.e., when there is a cause in which people believe, hundreds of thousands of citizens will offer not only their taxes but their lives. Certainly there will be the free riders, the draft dodgers and deserters, but surely this example indicates the potential strength of ideological motives to affect human behavior on a large scale.

While Olson admits the possibility of ideological groups, he cites three reasons for not using them to explain any examples of group action. First, it is not possible to get empirical proof

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of people's motivations, and thus the theory is untestable. Second, 'there will be sufficient explanations on other grounds for all the group action that will be considered" (p. 61). Third, "most organized pressure groups are explicitly working for gains for themselves, not gains for other groups, and in such cases it is hardly plausible to ascribe group action to any moral code" (Ibid.).

None of these arguments provides a convincing reason for ignoring ideological groups. Regarding the first, it would surely limit the possibilities for research if only those theories which were empirically testable were to be developed. Moreover, while a scientific test may not be available, there is certainly a preponderence of evidence which can be used regarding the likely motivations of individuals in ideological groups. The second argument, that there are "sufficient explanations on other grounds," is refuted in the case of welfare policies since many were significantly influenced by large welfare advocacy groups. Regarding the third reason, the fact that "most" organized groups are working for themselves hardly justifies ignoring those potentially powerful groups which are working for the gains of others. In sum, we must agree with Olson when he says "the theory is not at all sufficient where philanthropic lobbies, that is, lobbies that voice concern about some group other than the group that supports the lobby, or religious lobbies, are concerned" (p.160).

I would like to present an alternative hypothesis to Olson's. Groups such as welfare rights advocates and civil rights activists are inherently different from economically defined interest groups, because the reason for their formation is ideological or altruistic. They are not playing the economic maximizing game. They are playing the ideology game and striving to achieve ends other than economic rewards. Ideology or altruism, which seeks the advancement of others -- whether increased welfare or affirmative action -- replaces the selective incentive or coercion of Olson's groups. Hence they can rationally participate in large interest group activities and still

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be acting in their own self-interest and in a rational manner. While the objective of action may be the economic advantage of others (and may lead to ancillary benefit for those involved -- such as welfare jobs, or civil rights jobs) the activity itself may be an end for those with ideological motivations. It is precisely because the self-interest of ideological groups does not depend on economic factors that they are successful even though they do not fit into Olson's general theory. In this sense, they are a special case of large interest groups that Olson has failed to consider.

The importance of including ideological or philanthropic groups in any analysis of the legislative process is clearly revealed by examining the activities and effectiveness of groups such as the Settlement House workers, described in more detail in chapter 4. Giving up well-to-do lifestyles, the settlement house workers lived in the slums, published books and magazine articles, held meetings and made speeches and fought in legislative halls. Their activities contributed to the founding of the first Juvenile Court, and the passage of state child labor laws. They founded, in collaboration with other groups, the Charities Publication Committee, which undertook research and led to the publication of the massive Pittsburg Survey of social conditions, which in turn influenced the Progressive Party's 1912 presidential platform.

Today, many ideological groups, including a large number of those affiliated with different religious denominations, engage in research and disseminating literature on social issues of concern to their members, and have full-time paid lobbyists in Washington, whose primary function is to meet with congressional staffers to influence the legislative process. Clearly a model which ignored these groups could not be expected to accurately reflect the legislative process.

It is also important to examine the role of other groups, such as federal, state or local officials, which are not generally considered as interest groups. Several organizations representing these groups have been extremely influential in affecting policies, and in creating

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and appropriating public goods. The National Governor's Association, for example, was instrumental in passage of the new welfare law. When President Clinton vetoed the conference bill for being tough on children and weak on work, the NGA responded by proposing language in the bill that would give the states more funds for both children and work programs. These proposals addressed the concerns of the President, and assured the governors even more federal funds than they had previously agreed to! (It is also interesting to remark that the American Federation of State, County and Municipal Workers was the second largest PAC contributor to federal candidates in 1993-94.[1])

Although government officials may not at first appear to fit into the interest groups model, it is clear that they do comprise a group with a common interest, such as higher funding for their state in the case of governors. Moreover, the transfer of funds from taxpayers, in general, to state administrators, in particular, constitutes the creation and appropriation of a public good, just as much as a tax loophole for a business entity would constitute such a good. Under the Olson thesis, a group such as the governors can be particularly effective, since they both constitute a relatively small group, and thus have readily apparent gains, and they also have selective incentives, insofar as the governor's re-election prospects, where re-election is possible, are, presumably, positively correlated with the financial situation of his state.

We turn now from the actors to the interactions which affect the legislative process. Becker, as mentioned above, does not explain the formation of interest groups, but simply assumes that they will form as a result of market forces and effectively exert pressure to influence policy decisions. All the groups described above fit into an expanded Becker model which would incorporate competition among groups. The relevancy of his model, which focuses on the competition between taxpayer groups and subsidy recipients, is suggested by the increasing

[1] Federal Elections Commission, PAC Activity in 1994 elections, cited in Trattner, p.199.

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numbers of groups which have been formed in protest at what is considered high levels of taxation -- groups such as Americans for Tax Reform, Citizens Against Government Waste, Citizens for a Sound Economy and a myriad other groups seeking to protect the rights of taxpayers. Similarly, consumer groups such as Common Cause and Public Citizen have developed to counteract the influence of business groups. However, Becker does not address a crucial issue in the interaction of interest groups, namely that of competition between different *subsidy-seeking* interest groups.

One of the earliest scholars to examine competition among interest groups was Earl Latham, who analyzed the role of groups in governmental policymaking in his book, *The Group Basis of Politics* (1952). Latham's analysis led him to conclude that the "legislative vote on any issue tends to represent the composition of strength, i.e., the balance of power, among the contending groups at the moment of voting" (p.16). This has been a feature of the legislative process for decades and even centuries, but one to which little attention is given. Among the welfare issues which have given rise to high levels of competition were restrictions on child labor, proposed by the Children's Bureau and fought by business interests, and the Sheppard-Towner Act which provided for federal grants to the states for medical facilities, and which was fiercely attacked and eventually defeated by the AMA. More recently, competition between interest groups was evident during and after passage of the new welfare law, where different groups lobbied heavily for changes that would be more favorable to them. Among the groups competing for changes were different immigrant groups who had been cut off from benefits, agricultural interests, including grocers who stood to lose from cutting the food stamp program, and representatives of states who sought to gain or lose block grant bonuses depending on the way in which block grant formulae were written.

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The tendency to "up the ante" as each group tries to outdo its competitor leads not only to high levels of rent-seeking activity, but also gives a competitive advantage to those groups which are supported by highly capitalized interests. For while grass roots lobbying can to some extent rely on a high degree of volunteer labor, the impact of media campaigns and other technological resources used by lobbyists generally require a high level of capital inputs. This last point can be illustrated by cases such as Proposition 9 in California, the Clean Air Initiative. A month before the election, polls showed that 64% of the electorate supported the initiative. The poorly funded and relatively disorganized proponents, who spent $250,000 were outspent ten to one by the opposition interest group, a coalition of oil, chemical and utility companies. After a massive media campaign in the final month before voting, the initiative was defeated two to one. Such instances are clearly extremely common, and serve to highlight the degree to which legislation can be purchased by a well-funded and well-organized interest group.

A major effect of competition between interest groups is that the bidding war increases, and, paradoxically, competition leads to higher prices and greater rent seeking, since there can be no increase in the supply of the good, which is generally a unique piece of legislation.

The increase in the value of legislation as well as the increased competition from other groups has led to spectacular growth in both membership and expenditures of interest groups in recent years. The AARP, for example, grew from 1 million members in 1967 to 33 million in 1995 (Hrebenar, 1997). The increases in interest group expenditures are particularly evident among business groups. The oil industry, for example, spent millions of dollars on a campaign to defeat a bill to break up the eighteen largest oil companies. Senator Birch Bayh (D-Ind.) called this effort "the most sophisticated, expensive and elaborate lobby effort I've ever seen" (Hrebenar, p.125). Given the expected returns to these investments, the levels of expenditures are hardly surprising. Hrebenar cites the case of an antismoking proposition on the ballot in

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California in 1978, in which opponents spent $5.5 million to successfully defeat the measure. Ninety-nine percent of the funding came from tobacco companies who had at stake over $1.7 billion in sales annually, and they estimated that if the proposition passed tobacco sales might decline 15 percent. While welfare oriented groups are generally not in the same league as multi million dollar companies, the increasing privatization of welfare services may well lead to similar trends in the future.

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CHAPTER 3

GOVERNMENT AND ITS BUREAUCRACY

In the previous chapter, the primary focus of analysis was abstract voting models and the role of non-governmental agencies and individuals, specifically voters and special interest groups. This chapter moves to the center of the legislative process, presents a public choice model of this process and analyzes the roles of the institutions of government, including the legislature, the executive branch and the government bureaucracy.

I. Modeling the Legislative Process -- The Public Choice Approach

A major contribution of the public choice approach has been the application of the tools used for economic analysis to the political environment, and specifically the legislative process. This analogy, however, has certain limitations. For example, compared to traditional theory, the public choice model leads to the logical conclusion that not only are the suppliers and demanders of legislative output not clearly defined, but the product of government is itself shown to be misidentified. The legislation produced by government is often of little worth, in itself. Its value lies in the regulations and programs it authorizes and funds, or more precisely, in the benefits that these confer on affected parties. Thus, for example, food stamp legislation (a first stage intermediate product) has no value per se. But the food stamp program (a second stage intermediate product) provides increased profits (final product) to grocery and other agricultural interests, as well as increased income to food stamp recipients and increased funds to government agencies implementing the program.

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The relationships between the producers and consumers of government output are also shown to be far more complicated and ambiguous than traditional theory suggests. It is clear that special interests that benefit from government regulations and tax loopholes as well as government programs, are consumers. If, however, the specific legislation that benefits these groups is funded by a tax on the general population, these taxpayers in general are clearly not consumers. To the extent that they are unable or unwilling to organize to fight the legislation, due, for example, to rational ignorance or to transactions costs, they may be considered as coerced suppliers who gain nothing but are obliged to pay taxes. Thus, the lines between supplier and demander are blurred and voters will simultaneously be suppliers in some legislative markets and demanders in others.

Similarly, special interests play a role in both the supply and demand side of the legislative market place, although not simultaneously in any one market. Not only do these groups make their demands known through political contributions, they also engage in the process of producing legislation by, for example, appearing as expert witnesses at hearings and conferring with those staff members responsible for writing the legislation. Thus, they provide inputs to the provision of that legislation which they are demanding, giving rise to a major conflict of interest at the heart of the legislative process.

This conflict of interest is particularly acute in the case of those interest groups that themselves form part of the federal or state bureaucracy. For example, in the case of the New Welfare Law of 1996, representatives of state governments played a very active role in developing the formulas that would be used to calculate federal funds allocated to the states for certain programs contained in the law. Clearly, in this case the states are themselves interest groups, each trying to gain the best deal for its citizens at the expense of the citizens of other states. Similarly, an agency such as the Department of Health and Human Services, charged with

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implementing the New Welfare Law, is also charged with writing the regulations regarding implementation of the law, a situation which also holds dangers of conflict of interest.

Finally, we need to consider the role of the legislature itself, including members and their personal and committee staffs. The public choice approach sees this institution as primarily a broker of legislative benefits. To the extent that government programs are redistributive in nature, transferring general taxes to specific interest group beneficiaries, either directly or indirectly, the gains received by these groups are rents. In this view, the sale of legislation to the highest political bidder may be an intermediate step, but the final result is a brokering of rents to those groups offering the highest political rewards from those groups least able to resist.

The view that government is primarily a broker of rents, does not, however, rule out the possibility that in certain instances legislation may be produced which is primarily ideological or altruistic in origin and purpose. Thus, for example, a Member of Congress who holds strong ideological[1] beliefs, who is strongly identified with these positions and who has strong electoral support, may well be able to introduce and vote on legislation that is ideological in nature. The degree to which this is possible will depend, *inter alia*, on the safety of the member's seat, the degree to which he is beholden to special interests who may oppose the legislation for campaign funding and support, and the degree to which the ideological position itself guarantees voter support. When viewed through the economist's lens of supply and demand, the legislator in this case is himself a consumer of the ideological legislation.

II. Legislative Stability and Congressional Dominance

The application of rational choice theory to the legislative branch of government has produced a body of literature which incorporates analyses of the internal processes of decision-

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[1] Ideological is here used in the sense that a Member of Congress is willing to press for legislation even at the cost of constituent interests. (See Kau and Rubin and Kalt and Zupan, op.cit.)

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making, the stability of legislative outcomes, and the external relationships of the legislature with other branches of government such as the bureaucracy.

Gordon Tullock examined the implications of the median voter theorem on the legislative process in a paper entitled "Why so Much Stability?" (1981). Tullock noted that with complex issues to be decided by a process of majority voting, there is a strong likelihood of cycling over issues and stable outcomes would be highly improbable. However, he pointed out that, "If we look at the real world, not only is there no endless cycling, but acts are passed with reasonable dispatch and then remain unchanged for very long periods of time" (p.344).

A major reason for such stability, according to Tullock, is the existence of logrolling and coalition formation. Noting that most government actions have the characteristic of giving a rather intense benefit to a small group, at a small cost to each member of a large group, Tullock claims that under simple majority voting such bills would not be passed. If a coalition of several small groups was to get together and logroll such bills could succeed, he claims, but there are significant costs. The process of coalition formation is inhibited by information and transactions costs, in particular the bargaining among members and the use of credible threats of abandoning the coalition in order to gain privileges. Because of these difficulties, "the end product is apt to be the individually bargained logrolling model, with each congressman making a series of individual bargains with others because bargaining problems of attempting to maintain coalitions for a long period of time are too great" (p. 353). This explicit logrolling process may be replaced by a procedure in which a committee canvasses members to discover which bills would be passed and bundles the selected measures in one bill as a timesaving device. Tullock concludes that whether logrolling is explicit or implicit, it can lead to stable, though generally inefficient, legislative outcomes.

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The view that logrolling accounts for the stability of legislative outcomes is strongly contested by, among others, Kenneth Shepsle and Barry Weingast who maintain that real-world legislative practices constrain the degree of legislative instability by "*restricting* the domain and the content of legislative exchange" (1981, p.360). These authors, in their paper entitled "Structure-Induced Equilibrium and Legislative Choice", note that logrolling and vote-trading can also lead to endless cycles and policy reversals due, *inter alia*, to enforcement problems, and they see these practices as part of the problem, not part of the solution (1981).

Shepsle and Weingast present several examples of institutional arrangements that, by modifying majority rule, can contribute to legislative stability. One such rule, first proposed by Fiorina (1980), would limit amendments to a given set of projects to those which

1) strike a project;
2) add a project;
3) substitute one project for another.

Under these rules it can be shown that a stable policy choice exists (Fiorina, 1980). A further example, suggested by McKelvey (1979), is the stability that results when an individual or set of perfectly conspiring individuals have sufficient agenda control to ensure that the final outcome is at his (or their) ideal point (Shepsle and Weingast, 1981).

Other restrictions include Tullock's (1967) proposal that small changes not be allowed, thus restricting the set of proposals, Shepsle's notion that legislators be restricted to proposing only one dimension of the status quo at a time, the germaneness rule which restricts amendments, and rules requiring that the status quo be voted on last (Shepsle and Weingast, 1981). All these rules contribute to stability by restricting the behavior of legislators and the potential for legislative exchange to upset an equilibrium.

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The rules governing legislative processes not only contribute to stability of outcomes, but are arguably a source of committee power. This has been demonstrated by Shepsle and Weingast who note committees have enormous power over legislation in their area of responsibility. Alternative explanations of this power have focused on the role of the committees as gatekeeper of new legislation, their specialized knowledge and expertise in their area of jurisdiction and their control over the legislative agenda. According to Shepsle and Weingast these characteristics of committees serve more to describe committee power than to explain from whence it originates (1987). Moreover, none of them is convincing in and of itself, and each is subject to certain checks and balances. For example, the advantages of a committee's access to specialized knowledge and information is mitigated by the existence of an extensive congressional staff system, supported by research institutions such as the Congressional Research Service and the Congressional Budget Office, as well as by the experts and lobbyists from the various entities affected by the legislation.

Shepsle and Weingast propose an alternative explanation of committee power, claiming that "it resides in the rules governing the sequence of proposing, amending, and especially of vetoing in the legislative process" (p. 424). They emphasize particularly the last stage of the legislative process, the conference procedure, in which bicameral differences are resolved and the committee has *ex post* veto power over the legislation. This power, the authors maintain, ensures that changes in the status quo adverse to the interests of a decisive committee majority can be denied final passage. It is the credible threat of the use of this power, rather than informal reciprocity agreements, that makes gatekeeping and proposal power effective, according to these authors.

Weingast and Marshall take the institutional analysis of the legislature a step further in a later paper which develops a theory of legislative institutions more directly comparable to the

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theory of the firm (1988). In this paper, the authors note that, "Like market institutions, legislative institutions reflect two key components: the goals and preferences of individuals, here legislators seeking reelection from their constituents, and the transactions costs that are induced by imperfect information, opportunism and other agency problems" (p. 445). While both kinds of institutions are subject to agency problems, the specific types of problems and the appropriate solutions will differ. In the market, mechanisms such as vertical integration evolve as solutions to agency problems such as moral hazard and adverse selection, while the legislature requires mechanisms to deal with problems such as enforcement of agreements on vote trading or logrolling.

Weingast and Marshall trace the root of the agency problem to the fact that "a huge variety of interests are represented in the legislature, and almost none is represented by a majority" (p. 444). Thus, "for most interests to gain policy benefits, representatives with different constituents must agree to exchange support" (p. 444). This diversity of interest creates gains from exchange within the legislature, and such exchange is facilitated through the legislative committee system which "provides substantial protection against opportunistic behavior, thereby providing durability to policy bargains" (p. 455).

To illustrate their point, Weingast and Marshall use the example of one group of legislators who seek dams and bridges for their constituents while another group of legislators seek a regulatory agency for their voters. Where either voting or implementation of the legislation is not simultaneous, the agreement is subject to reneging. However, under the committee system, members who gain most from regulatory policy will tend to sit on the relevant regulatory committee and those who seek dams and bridges will seek positions on committees with jurisdiction in this area. Since each committee has control over the legislative agenda in their area of jurisdiction, they can block any effort to renege and ensure that the agreed-upon policy is implemented.

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All of the papers just discussed analyze the legislature as a self-contained entity, in isolation from other branches of government. The intricate links between the legislature and the bureaucracy is illuminated in a paper by Terry M. Moe, entitled, "An Assessment of the Positive Theory of Congressional Dominance" (1987). The theory of congressional dominance is part of a strand of rational choice theory that moved away from abstract voting models to an emphasis on the role of institutions in political outcomes. The basic argument of the theory is that Congress controls the bureaucracy (an argument that is discussed more fully in section 3 below). Moe argues that the theory focuses almost exclusively on the Congress, and specifically certain committees, and ignores the institutional form and dynamics of the bureaucracy. He illustrates in great detail how changes in the leadership of one bureaucracy, the FTC, led to policy changes within that agency, which were neither initiated, nor generally approved of, by the overseeing committee. The means by which Congress could control agencies -- budgets, appointments and legislation -- are shown to be theoretically feasible, but in practice difficult to implement.

III. Government Bureaucracy

In the public choice literature, the role of the government bureaucrat is often considered analogous to the role of the manager of a firm, and the bureaucrat's relationship to elected officials is comparable to a manager's relationship to stockholders. Both are subject to principal-agent problems, and in both cases performance may not be fully reflected in remuneration (Williamson, 1964, Mueller, 1990, Baumol, 1959).

One of the earliest and most influential studies of bureaucracy in a public choice framework was that of William Niskanan (1971). In marked contrast to the traditional view of theorists such as Max Weber (1947), Niskanen did not hold the view that the principal role played by bureaucracies was to serve the public interest by implementing the policies of a benevolent

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government. Rather, Niskanen applied rational choice analysis, maintaining that bureaucrats pursue their own rational self-interest.

Noting that government bureaucrats generally have a monopoly on the provision of a good or service, thus making monitoring difficult, and that salary structures do not contain efficiency incentives, Niskanan proposed that bureaucrats have goals other than economic efficiency or profit maximization. He cited, *inter alia*, perquisites of office, power, prestige, public reputation, patronage, output of the bureau, ease of making changes and ease of managing the bureau. All but the last two, he claimed, were positively related to the size of the bureau's budget, leading to an expansion of output and maximization of the budget, subject to costs being covered.

The bureau's budget is obtained by a process of bargaining with an appropriations committee, which is assumed to be a monopsonist. An important feature of the model is that the non-market nature of the bureau output, and the monopoly structure of the bureau leads to asymmetry of information regarding costs. The funder cannot accurately assess costs, since there is no market for the output. Niskanen suggests that under these conditions the bureau is the dominant bargainer, and the result of its maximizing strategy will be that the budget will be expanded beyond the level where marginal cost equals marginal public benefit.

In figure 9, the optimum output would be at Q*, where the marginal cost function, C, intersects the marginal benefit function, B. However, the bureau, according to the Niskanen model, can use its monopoly power to appropriate monopoly rents (see below for a detailed discussion of rent seeking), represented by triangle B, equivalent to the consumer surplus at equilibrium, represented by triangle, A. To the extent that the bureau is successful, the output will approach Q'.

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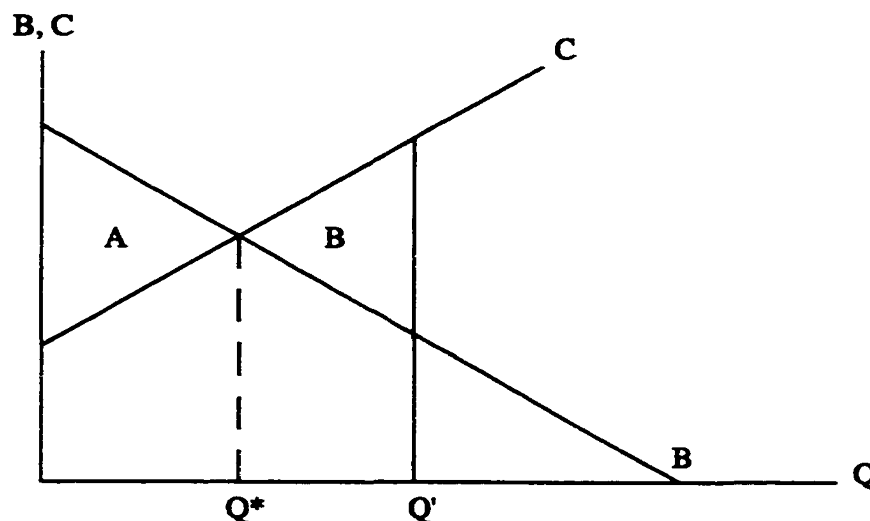

Figure 9 — The oversupply of a bureau's output

The goals proposed by Niskanan have been questioned by other authors, including Weingast and Moran (1983), Oliver Williamson (1964) and Gist and Hill (1981). Like Niskanen, Weingast and Moran employ a principal-agent model in their analysis of bureaucracies. However, they maintain that committee members possess sufficient rewards and sanctions to create an incentive system for agencies and that, agency mandate nothwithstanding, rewards go to those agencies that pursue policies of interest to the current committee members; those agencies that fail to do so are confronted with sanctions. It is noteworthy that the authors specifically refer to the policies which the bureaus produce: they do not refer to the economic efficiency with which the bureau operates.

As Weingast and Moran note, both their approach and that of Niskanen may lead to observationally equivalent behavior. The committee's apparent lack of oversight, represented by such things as few oversight hearings, perfunctory attention to the ongoing operations of the bureau, and infrequent congressional investigations, could equally well indicate that an effective incentive system obviated the need for such activities. Weingast and Moran claim that this is in

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fact the case. They note that the threat of ex post sanctions creates ex ante incentives for the bureau to serve a congressional clientele. Thus, the more effective the incentive system, the less often sanctions would be observed. The authors conclude that direct and continuous monitoring of inputs rather than of results is an inefficient mechanism by which a principal constrains the action of his agent (1985). Thus, for Weingast and Moran, the balance of power lays with the committee, which constrains the activities, though not necessarily the overall budget, of the bureau, while Niskanen holds that bureaus have sufficient power and independence to increase both output and total costs beyond that which would be socially optimal.

In order to shed more light on the balance of power between bureaucrat and politician, it is important to define the objectives of each. While committee members have incentives to deliver certain policies or programs to voters and/or interest groups, it is not evident that they have any incentive to monitor the efficiency with which such policies and programs are delivered. For such an incentive to exist, the rewards for discovering and rectifying inefficiencies would need to exceed the not insignificant monitoring costs. Such rewards would presumably be in the form of votes or support from interest groups. There is little evidence, however, to suggest that interest groups or voters are sufficiently interested in the efficiency of individual government bureaus, (although they may be quite dissatisfied with the overall level of efficiency in government), and, in fact, fiscal illusion and rational ignorance theories would suggest the contrary.

Furthermore, in some cases there would seem to be strong reasons for interest groups to actively discourage monitoring by committees. A producer of armaments, for example, lobbying for increased expenditures on his product, is hardly likely to encourage a committee to put pressure on the Defense Department to minimize its costs! In sum, the committee may have

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policy control over the overall policy agenda of the bureau, as Weingast and Moran suggest, while the bureau has monopoly control over the production processes, as Niskanen has asserted.

Empirical tests provide conflicting evidence on whether the output of bureaus exceeds the optimal output. Romer and Rosenthal find corroboration that budgets are higher than that which a median voter model would predict in their analysis of Oregon school budgets (1978, 1982), and Weingast and Moran (1983) provide evidence that bureaucratic actions are constrained by the congressional oversight committees.

In the final analysis, it is clear that in order for bureaucrats or other interest groups to gain from transfer programs the funds must be appropriated and allocated within the federal budget. This wealth transfer between political constituents in the political market, described in section 1, is analogous to the wealth transfer between consumers and producers described by Peltzman (1976), Stigler (1971) and others in the rent-seeking literature.

IV. The Iron Triangle

The relationship between the relevant Congressional oversight committees, the bureaucracy and special interests has been described by some as an 'Iron Triangle'. This term conveys not only the strong links between these three components of the political process, but also the mutually supportive and reciprocal nature of the relationship. In the popular press, the term Washington establishment is often used to convey the same idea.

One of the earliest writers to explore the nature of the Washington establishment was Morris Fiorina, (1977). In *Congress -- Keystone to the Washington Establishment*, Fiorina summarizes his conclusions thus:

> There is a Washington establishment. In fact, it is a hydra with each head only marginally concerned with the other's existence. These establishments are *not* malevolent, centrally directed conspiracies against the American people. Rather, they are unconsciously evolved and evolving networks of congressmen, bureaucrats, and organized subgroups of the citizenry all seeking to achieve their own goals. Contrary to what is popularly believed, the bureaucrats are not the problem. Congressmen are. *The Congress is the key to the Washington establishment.* The

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> Congress created the establishment, sustains it, and most likely will continue to sustain and even expand it. But . . . the disturbing aspects of the Washington establishment follow from the uncoordinated operations of the overall system, not from any sinister motivation of those who compose it. . . . many of those in the heart of the establishment are genuinely unaware that they are members in good standing (p. 3, 1977).

The continuing operation of this type of establishment, according to Fiorina, "has potentially disturbing implications for the future welfare of this country" (p. 2).

Fiorina builds his case for the existence of a Washington establishment on the basis of research carried out by David Mayhew and published in an article subtitled "The Case of the Vanishing Marginals" (1974). This article documents the decline of marginal voting districts and the accompanying increase in the number of "safe" political districts represented by career politicians. Mayhew characterizes the modern Congress as "an assembly of professional politicians spinning out political careers" (p. 15). He notes that the jobs offer good pay and high prestige and there is no shortage of applicants. Successful pursuit of such a career requires continual reelection. And in fact this is hypothesized to be the major goal of incumbents (which is not to deny that some among them desire reelection for reasons of ideology or altruism as opposed to personal power or wealth.)

According to Fiorina the marginal Congressman is necessary for the health of the political system since changes in popular sentiments are reflected through these members rather than members who have safe seats and are likely to remain in them for the long term, regardless of marginal shifts in voter opinion. Marginal districts build responsiveness into the electoral system, and as such districts disappear, according to Fiorina, "we face the possibility of a Congress composed of professional officeholders oblivious to the changing political sentiments of the country" (p. 14).

The decline in the number of marginal districts has been attributed to a number of factors, including changes in the socioeconomic homogeneity of the district (either endogenously or

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through redistricting), changes in the effectiveness of the congressional incumbent, and changes in voter behavior. Fiorina rejects the first of these on the basis, inter alia, that socioeconomic change tends to be gradual and takes decades to show up, while the decline of the marginals between the 1950s and 1970s, (the period under study) was quite rapid. Similarly, he rejects the argument that redistricting led to the declining marginals, noting that the decline in marginal states among those that were not subject to redistricting was just as great as in those states which were redistricted. (This argument is clearly weakened by the fact that there would be no need to redistrict in those states in which there was evidence that other factors were leading to declining marginalism. A combination of increasing homogeneity in some districts and redistricting in others could have significantly contributed to the increase in so-called safe districts. This, however, is rejected by Fiorina.)

Fiorina also dismisses the argument that increased effectiveness of the incumbent politician led to the increase in safe seats. Higher visibility due to being an office holder, in combination with the increased resources available to office holders, gives the incumbent a significant advantage vis-à-vis any challenger. The basis of Fiorina's rejection is that if it were correct one would "expect to see the name recognition of congressional incumbents increasing over the period during which the marginals were vanishing," which was not the case (p. 22).

Fiorina proposes an alternative explanation of the vanishing marginals, suggesting that voters are the culprits. By changing the principals on which their votes depend they have affected the levels of congressional turnover. This behavioral change argument holds that voters became disillusioned with political parties and stopped using party affiliation as a determinant of voting, instead using incumbency, and assuming that if an incumbent made no serious mistakes, they were satisfactory and should therefore be reelected. The implausibility of this argument is noted

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by Fiorina who points out that it implies voters who are increasingly cynical and alienated by politicians are simultaneously increasingly supportive of their incumbent representatives (p. 27).

In order to shed more light on the problem, Fiorina undertakes field work in two districts which have similar socioeconomic profiles, but one of which is a vanishing marginal while the other is still a marginal district. He concludes that

> The changing nature of congressional elections in these two districts stems directly from the changing behavior of the congressmen who represented them. Both districts are heterogeneous in a socioeconomic sense and consequently in their basic political allegiances (e.g., as illustrated by registration). So long as (they) are represented by congressmen who function principally as national policymakers . . . reasonably close congressional elections will naturally result. For every voter a congressman pleases by a policy stand he will displease someone else. The consequence is a marginal district. But if we have incumbents who deemphasize controversial policy positions and instead place heavy emphasis on nonpartisan, nonprogrammatic constituency services (for which demand grows as government expands) the resulting blurring of political friends and enemies is sufficient to shift the district out of the marginal camp (p. 37).

The change in behavior of congressmen is attributable, at least in part, to the "growth of an activist federal government" which has "stimulated a change in the mix of congressional activities" (p. 46). The growth of government bureaucracy has provided opportunities for congressmen to serve their constituents by acting as powerful intermediaries. Congressmen have acceded readily to the increased demand for casework services that accompanied the growth of bureaucracy. For while traditional legislative activities generally please some constituents and displease others, few enemies are made by casework activities. Moreover, as a legislator, a congressman is only one of several hundred, and responsibility and credit are less clear than when a direct service is provided. The reward for this service is reelection. And as seniority increases, so goes the argument, so does casework effectiveness and thus the probability of continued reelection. The increasing role of pork barrel activities can be explained along similar lines. As congressmen divert their resources from lawmaking (which can divide a district) to casework and bringing home the pork (which unifies support), the marginal districts were rendered safe.

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The benefits of the current system, for both congressmen and constituents that receive intermediary services, are clear. The bureaucracy also gains from this arrangement, however. Bureaucrats who are interested in expanding their agency services for ideological reasons, as well as those primarily interested in greater personal power and prestige, benefit from larger bureaucracies. Moreover, they can earn the support of congress by their responsiveness to congressional requests, thus consolidating support for continued funding.

The end result of this system, according to Fiorina, is that "more and more bureaucrats promulgate more and more regulations and dispense more and more money. Fewer and fewer congressmen suffer electoral defeat. Elements of the electorate benefit from government programs, and all of the electorate is eligible for ombudsman services. But the general long term welfare of the United States is no more than an incidental by-product of the system" (p. 49).

The increase in case work and pork provision by congressmen has been facilitated by significant increases in personal and committee staff, and by an increase in the number of subcommittees which give members more control of specific programs which are important to their constituents. The subcommittees form the cornerstones of a series of subgovernments each composed of the standing subcommittee, the agencies under its jurisdiction, and the special interests served by the legislation -- the iron triangles. Logrolling between the subcommittees facilitates the passage of legislation which favors organized minorities who then repay their congressmen with reelection.

The power of the iron triangles may be diminishing, however. A dramatic increase in the number of interest groups, some of which have competing ends, and specifically a rise in the number of public interest groups, increases the potential costs to congressmen of satisfying the needs of any specific group (Rowley, 1995). Moreover, committee power has been eroded as proliferating committees have jurisdictional conflicts, and as floor amendments are increasingly

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being used to circumvent the committee system. Finally, the increasing importance of contributions from Political Action Committees (PACs), which do not necessarily have strong links with any geographic district, tempers the gains to be made from exclusive focus on district casework and pork provision services.

V. The Role of the President

In analyzing the role of the President, the public choice approach once again incorporates an analysis of the motivations and institutional constraints that influence the behavior of the office holder. The impact of the President on the legislative process is of consequence not only because the office is a powerful one in terms of affecting the passage of legislation and the structure and activities of the bureaucracy, but also because the objectives and constraints of the office may diverge sharply from those of the legislature. Legislators are beholden to the constituents in their states or districts, while the President is beholden to a more heterogeneous national electorate. Moreover, the President need only be concerned with reelection during the first term of office. Thereafter, effective governance and a historical legacy may be of greater concern (Rowley, 1985). The lower priority given to reelection activities, as well as the national scope of the constituency, gives the President autonomy to pursue his own vision for the nation, a vision to be implemented by a centrally directed bureaucracy, responsive to his agenda.

The primary role of the executive in the legislative process is derived from the power of the veto. A study of the presidency from a rational choice perspective by Crain and Tollison argues that the veto power raises the cost of reneging on legislative contracts (1979). These authors suggest that increased attempts to renege on previous legislation, or substantively alter it, should lead to more vetoes as the president tries to protect legislation. This argument is based on the idea that larger majorities in the congress will lower the cost of changing existing laws, thus increasing attempts to do so which, in turn, will lead to an increased number of vetoes. The veto

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power thus increases the durability and thus the value of legislation to its beneficiaries, which may include special interests, legislators and members of the bureaucracy. The argument is clearly analogous to the theory of the independent judiciary derived by Landes and Posner, which claims that the judiciary enhances the durability and value of existing laws by rarely nullifying them and generally interpreting them in terms of the intent of enacting legislators (Landes and Posner, 1975). In both cases, the clear implication is that rather than a separation of powers there is a collusion of interests.

Crain and Tollison used data on gubernatorial vetoes across state government on the United States to test their hypothesis and concluded that "the overall regression explain(ed) over half of the variation in gubernatorial vetoes and (was) highly significant at the 1 percent level" (p. 565). Clearly this still leaves a great deal to be explained. Moreover, the use of gubernatorial vetoes as a proxy for the Presidential veto is highly questionable given the unique nature of the Presidency in terms of objectives, constraints and institutional context. Perhaps the most troubling issue, however, is the failure to show what the president has to gain from enhancing the durability of legislation which, according to the iron triangle hypothesis, is developed as a result of bargaining between legislators and special interests. This is particularly problematic when one notes that the proposed new legislation is presumably the result of changes in public opinion of the balance of power of interest groups (see Weingast, 1981). It seems reasonable to assume that the President would generally have a greater interest in supporting the newly powerful legislators and interest groups, than in supporting those now out of power. They are no longer in a position to pay for enhanced durability, and if such durability had been part of an earlier agreement, the incentive to renege is clear.

An alternative view of the Presidential role suggests that given the limited influence over policy that the office entails, the President reserves this power for his highest priority areas such

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as new initiatives (Weingast, 1981). If the new policy is combined with a change in the composition of active interest groups or with a change in public opinion that supports the President, his action will increase costs for supporters of the status quo, both legislators and special interests. Weingast provides the example of airline deregulation to support his claim. He shows that legislative changes were brought about by, *inter alia*, increasing public support combined with the interventions of Presidents Ford and Carter. Clearly this argument renders questionable the collusion of powers suggested by Crain and Tollison.

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CHAPTER 4

THE ORIGINS OF THE NEW WELFARE LAW – A HISTORICAL OVERVIEW

This chapter briefly traces the historical development of welfare, from individual charity motivated primarily by moral values and administered within the community or parish, to large-scale governmental charity, administered at both national and local levels, and for which the motivations are far more complicated than simple benevolence. The interests and values of different elements within the society and the effectiveness of the interest groups that they comprise are highlighted in the chapter.

I. Historical Development of Welfare Programs in Great Britain

A. Pre-Poor Law

Concern for the welfare of the poor has a long history, not only in western nations but also in the east. William Trattner, who has undertaken a detailed study of the origins of policies affecting the poor, notes that as early as two thousand years before Christ, Hammurabi, the ruler of Babylon, made the protection of orphans and widows, and the weak against the strong, part of his code of ethics (1984). The ancient Greeks and Romans, as well as Buddhists and the authors of the Old Testament, extolled the virtues of giving to the poor, often suggesting that it was a moral duty. Thus, what is often thought to be a Christian tradition has, in fact, a much longer genealogy, and one that spans many cultures. While it is useful to bear this in mind when examining subsequent developments, this paper will focus only on the growth of welfare policies and institutions in the United States and their precursors in Great Britain.

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In the early years of Christianity the needy were cared for by family and neighbors in the local community and charitable institutions were unknown. Over time, however, a number of religious and secular institutions emerged to address the needs of growing numbers of poor. The development of monastic orders around the sixth century marks the beginning of this trend, with some orders being formed primarily to aid the needy, both giving to those who came to their doors and taking provisions to the poor in local communities. The monasteries were also among the first to establish hospitals in medieval times to care not only for the sick, but also to house and care for travelers, orphans, the aged and the destitute. Outside of the monasteries, the ecclesiastical authorities administered medieval poor relief at the parish or diocese level. The bishops and parish priests distributed a percentage of the tithes (which were compulsory payments) to those in need within the parish. Thus, although the redistributive welfare state is often considered a relatively modern invention, its origins can be traced back well over a thousand years!

In addition to ecclesiastical institutions, a number of secular agencies emerged to provide for the needy. With the advent of feudalism the lord of the manor took responsibility for the serfs residing on his lands, providing insurance against sickness, old age and unemployment. Those who lived in the city were often aided by guilds, which "distributed corn and barley yearly, fed the needy on feast days, provided free lodgings for destitute travelers, and engaged in other kinds of intermittent and incidental help" (Trattner, p. 5). Thus, a network of charitable agencies, both urban and rural, secular and religious, coexisted with individual charity even in medieval times. These institutions underwent major upheavals with the demise of feudalism.

In the rural areas, the agricultural revolution led to displacement of tenant farmers and agricultural laborers as landlords enclosed their lands in order to raise more profitable sheep. Meanwhile in urban areas the industrial revolution and the growth of the factory system led to the

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decline of craft guilds and the growth of a large pool of low-skilled urban workers, including those who came from the rural areas in search of employment. High levels of unemployment were accompanied by dismal working conditions and long hours of labor for adults and children alike.

The seeds of major changes in dealing with the problem of poverty can be traced to the mid fourteenth century, with the advent of a number of natural calamities, including crop failures, famines, and the Black Death of 1348-49, which killed almost a third of England's population. Widespread poverty, migration from rural areas into towns and cities, along with increased crime and begging led to state intervention and the introduction of a series of restrictive statutory measures. One of the most notable was the Statute of Laborers, proclaimed in 1349, which set maximum wages, restricted travel for indigent and unemployed persons and forbade the giving of charity to able-bodied alms seekers.

The social and economic upheavals continued, however, and further measures were enacted in the sixteenth century. In 1531 a statute was passed which provided for the public whipping of able-bodied vagrants, while assigning aged or disabled persons areas in which they were allowed to beg. This philosophy of sharply distinguishing between the "worthy" and the "non-worthy" poor was further developed under the Henrician Poor Law, the Act for the Punishment of Sturdy Vagabonds and Beggars.[1] This legislation provided for branding, enslavement and execution of able-bodied beggars, but also ordered local public officials to gather resources from voluntary contributions to the churches to provide alms for the poor, aged and disabled, and to provide work for the able-bodied. Thus the recognition that some of the poor were unable to find work, and the consequent introduction of the first "workfare" program, can be

[1] Passed in 1536, this law coincided with the Reformation and dissolution of the monasteries and other church property, leading to unemployment for many who had made a livelihood in the church, and loss of homes for those who had lived in church institutions.

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traced back over 450 years! Children who were found begging could be placed in apprenticeships if they were between 5 and 14 years old. This act thus provided for the able-bodied and disabled, for the young and old.

The administration of the Henrician Poor Law was the responsibility of both civic and ecclesiastical local authorities, such as mayors and churchwardens. Funds were initially raised through contributions to churches. By the late sixteenth century, however, this source of funds was no longer considered sufficient, and a law was introduced directing local officials to assess and tax all the inhabitants of their jurisdiction in order to provide for the needs of the poor. A new public office was created, the overseer of the poor, who was charged with providing work relief for the needy.

In spite of extensive legislation and the increasing allocation of funds to the needy, serious problems remained. The welfare system was put to the test in the 1590s when widespread famine, food scarcity and inflation led to rioting and social disorder. Motivated by fear as much as ideology, lawmakers responded to the threat by passing the Poor Law of 1601, a law that remained the basis of England's welfare system until the 1830s (Butler and Kondratis, 1987).

B. The Poor Law of 1601

This legislation continued the approach of previous measures such as the Henrician Poor Law, but with more extensive and detailed provisions. It contained harsh measures for vagrants refusing to work -- including whipping, branding, being stoned or put to death -- and had no provisions for appeal from those who felt aggrieved. It stipulated that parents, if they had the means, were responsible for their children, and children for their needy parents and grandparents. It followed previous legislation in dividing the needy into three major categories and prescribing separate treatments for each. Children were to be placed in apprenticeships, the able-bodied were

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to be put to work, and the disabled were to be provided either institutional ("indoor") relief (such as for the mentally ill), or home ("outdoor") relief (Himmelfarb, 1986).

While many of the provisions of the Poor Law had clear antecedents in earlier legislation, this law was the first comprehensive welfare legislation, making coherent the sometimes inconsistent measures which were in existence, establishing the responsibility of civil authorities, and establishing obligatory financing outside of the church. Most remarkably, perhaps, the law clearly reflected the view that the needy not only deserved assistance, but had a legal right to it.[2] Many of these features subsequently provided the basis for poor laws in the American colonies.

II. The Development of Welfare Policies in the New World

A. The Early Years - Community Based Relief[3]

The historical development of policies and programs to deal with poverty in the American colonies bears remarkable similarity to the development of such policies in England. In the early days of settlement, land was plentiful and the indigent were generally cared for by family, friends or neighbors. Over time, however, the English practice of shipping convicts, vagrants and other undesirables to the colonies, in addition to the hardship of the journey, which resulted in death for some and illness for many, contributed to a growing number of indigents in the New World. Unlike the Old World, in which ecclesiastical institutions such as monasteries provided aid to the poor, the colonies in general did not develop such establishments. (The Dutch Reformed Church in New Amsterdam, which established a system of ecclesiastical poor relief, was a notable exception.)

By the mid-seventeenth century, the colonies began adopting legislation based on the English Poor Law. Poor relief was administered at the local level, towns or parishes, and funds

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[2] See Trattner, pp. 10-13 for a fuller discussion of this legislation and its antecedents.
[3] This section relies heavily on Trattner for a description of relief in the Old World and the Colonies.

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were raised through a compulsory tax. Children were placed in apprenticeships. The mentally ill were cared for by the community, and later in institutions. And, as in England, severe penalties were introduced for the able-bodied unemployed that could be jailed, whipped, or bound out as indentured servants. While many of the policies reflected the English precedents, however, several new approaches were adopted in the colonies, including the practice of placing the poor in private homes at public expense. In some cases the poor were auctioned off to the lowest bidder, with the town paying for their upkeep. Free medical attention was provided, and exemption from taxes.

The generosity of townsfolk to the poor among them did not extend to strangers, and some towns required newcomers to have a town resident provide for security and guarantee that he would not become a public charge. Since each town was obliged by law to provide for needy inhabitants, the definition of 'inhabitant' gained great significance, and generally referred to a person who had been resident for three months without being asked to leave. The problem was particularly acute in the large port towns, where many impoverished immigrants were brought. Many of these towns employed officials to ward off strangers and required ship captains to post a bond for each person they brought to the colonies. The refugee problem was also exacerbated periodically by those fleeing troubles such as Indian wars in the frontier settlements. The disproportionate burdens falling on towns such as Boston led the authorities of this town to request and receive funds from the colonial treasury, marking the beginning of state funding for welfare. By the early eighteenth century a state funded, locally administered welfare system, not dissimilar to that in England was in place in the New World.

B. Growth of Public and Private Relief in the Eighteenth Century

In both the Old and New Worlds the growth in legislation, taxes, and expenditures was accompanied by growth in the numbers of needy. Between 1700 and 1753 the residents of

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Boston increased the amount spent on poor relief from 500 pounds to 10,000 pounds per year, and it increased further through the 1770s, even when the population had stabilized. Likewise in New York in 1772 one out of four free men were classified as poor.[4] Poor relief is estimated to have cost an average of 10 to 35 percent of municipal funds. In addition to the problems cited above, a rise in illegitimacy contributed to high dependency rates and by 1750 half the poor relief of some of the colony parishes went to families caring for illegitimate children.

The growth in public expenditures on welfare was accompanied in the eighteenth century by an increase in private charity from institutions and individuals that had accumulated wealth. In addition to religious organizations, a number of institutions based on ethnicity, such as the Boston Irish Society and the German Society of New York, emerged to provide relief primarily, but generally not exclusively, for persons of the same ethnic origin.

From a public choice perspective it is interesting to examine some of the motivations behind the formation of these groups. One of the earliest charitable societies was the Scots Charitable Society, founded in Boston in 1657. According to its charter this organization was founded for the "relief of ourselves and any other for which we may see cause" (Trattner, p. 37). Clearly, a combination of self interest -- providing mutual insurance against calamity -- as well as humanitarian principals were motivating factors behind the establishment of this society. William Trattner suggested that the Quakers, who provided a great deal of relief, were motivated not only by humanitarian and religious values, but also by the desire to establish "a place in American Society," particularly since their refusal to bear arms set them apart from their fellow countrymen (Ibid.). He also claims that the philanthropic activities of some of these groups was based on social objectives such as a desire to "prove to themselves and to others that they were worthy of

[4] See Gary Nash, Urban Wealth and Poverty in Pre-Revolutionary America, Journal of Interdisciplinary History, 6 (Spring, 1976), quoted in Trattner, p.33.

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respect and admiration, to rub shoulders with distinguished citizens, or to control the poor" (Trattner, p. 9).

While self-interest undoubtedly accounted at least partially for the individual philanthropy of many, humanitarianism as an end in itself was promoted by several movements of the eighteenth century. The Great Awakening, a series of religious revivals which took place from the late 1720s to the 1740s, was led by George Whitefield, who preached about the misery of the poor, took up collections on their behalf, and distributed aid to individuals as well as orphanages and schools. One noted social welfare historian claims that this movement popularized philanthropy and transformed "do-goodism from a predominantly upper-and middle-class activity -- half responsibility, half recreation -- into a broadly shared, genuinely popular, avocation" (Bremner, 1960, p. 42).

The Enlightenment was also an influential movement, and John Locke's treatises on psychology, which held that human beings were created as blank slates, contradicted the determinism of Calvinism, and led to the implication that the elimination of poverty was not only possible but desirable. [Locke, himself, devised a plan for pauper schools in which children would be put to work as well as educated, and in which their mothers also would be employed, but this was never adopted (Himmelfarb, 1986, p. 25)].

Finally, the American Revolution, and particularly the Declaration of Independence, which held that all men were created equal, tended to call attention to the existing inequalities, and may have further spurred the growth of philanthropy.

By the end of the eighteenth century, then, philanthropy was flourishing, both from private and individual sources. By this time too public assistance had spread to the Western Territories and the states that were carved from them. In the South, the parish system of poor relief was replaced by civil institutions, following the separation of church and state and

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dissolution of the parishes. In spite of all these efforts, however, the incidence of poverty continued to increase, and along with it demands on public assistance.

C. Further Expansion in the Nineteenth Century

Increasing poverty was a feature of both English and American society throughout the nineteenth century, though for different reasons. In America, immigration was often blamed, as well as rapid industrialization. While the former seems plausible as new settlers took time to become established develop skills and find employment, it seems that industrialization should have led to increased employment as production and commerce increased, more than offsetting the loss of jobs in handicrafts. In England, the Speenhamland system was thought to have led to high expenditures on poor relief. This system was developed in the district of Speenhamland in 1795 to address the problem of low wages and high prices (Himmelfarb, 1986). Laborers paid less than a certain amount, which varied according to the price of wheat, were granted supplemental relief. The legislation provided that "Every poor and industrious man" whose earnings fell below a given standard, determined by the price of bread and the size of his family, would receive a subsidy from the parish to bring his income up to a minimum subsistence level. As Himmelfarb notes, this system spread to other districts, particularly in the depressed rural south, with the result that a considerable number of agricultural laborers became dependent, entirely or in part, on the parish. Moreover, Trattner notes that "the system seemed to bring with it higher prices, higher taxes, and the belief that, since the poor were guaranteed a minimum income, they not only were becoming lazy, but were encouraged to multiply," -- a refrain strikingly similar to what one hears some 200 years later (Himmelfarb, 1986, pp.64-65).

Growing concern about the increasing costs of poor relief was accompanied by concern about its effects on the motivations of recipients, as well as dissatisfaction with the administration of relief. In England the system of poor relief depended largely on overseers of the poor who

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were said to be "unpaid, untrained and often incompetent" (Trattner, p.49). And, since aid was locally administered, there was great inequality, with those districts having a high proportion of needy being subject to the greatest demands, while also having the most meager resources to address those demands.

The practical concerns regarding the efficiency and equity of the system were accompanied in the early nineteenth century by the evolution of a philosophy of individualism and laissez-faire. The goal of obtaining the greatest happiness for the greatest number required, according to this philosophy, that each individual be allowed to pursue their own self interest, without interference from the state. Adam Smith, however, a major proponent of laissez-faire, did not call for the abolition of the Poor Law. As Himmelfarb has noted, the self-interest propounded in *The Wealth of Nations* seems to be incongruent with the sentiments in Smith's other major work, *The Theory of Moral Sentiments*. Regarding the latter, Himmelfarb comments that "the operative word in that book was *sympathy*. Sympathy was presumed to be as much a principal of human nature as self-interest; indeed it informed self-interest since it was one of the pleasures experienced by the individual when he contemplated or contributed to the good of another" (Himmelfarb, 1986, p. 47). In fact, Smith insisted that there were many occasions when the interests of the individual had to make way for the interests of others, or the general interest. Moreover, he was, at times, highly critical of the "selfish and duplicitous" mercantile interests: "Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people" (Smith, p.98, quoted in Himmelfarb, 1986, p.49).

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Another highly influential figure of the time, Thomas Malthus, was unequivocal about the evils of the Poor Law and was one of the major proponents of abolishing it. He maintained that it enabled families to have more children, thus leading to lower wages and living standards, and ultimately to greater misery for the poor and the society at large. The principal of population which underlay Malthus' argument was based on what he predicated were two laws of nature: food is necessary to the existence of man and the passion between the sexes is necessary and would remain nearly in its present state. He maintained that population, when unchecked, increases in a geometric ratio while subsistence food production increases in an arithmetic ratio, leading to an enormous discrepancy. In the absence of preventive checks on population growth, such as delayed marriage, this discrepancy would be corrected by positive checks such as starvation, sickness, war, infanticide and other such factors which would reduce the size of the population to the level of the food supply. The power of Malthus arguments has been noted by Walter Bagehot who remarked that Malthus "advertised his notions and fixed them among the men who understood a simple and striking exaggeration far more easily than a full and accurate truth. He created an entirely new feeling on his subject" (Bagehot, 1978, p. 331). Similarly, Himmelfarb has noted that, "Whatever difficulties there were in his theory, however faulty the logic or evidence, it gripped the imagination of contemporaries, of all ranks, classes, callings, and persuasions as few other books had ever done" (1986, p. 127).

The concerns about public relief aroused by Adam Smith and Thomas Malthus were reinforced by a number of other prominent figures, including Alexis de Toqueville, who, writing in the 1830s expressed his conviction that

> " . . . any permanent, regular administrative system whose aim will be to provide for the needs of the poor, will breed more miseries than it can cure, will deprave the population that it wants to help and comfort, will in time reduce the rich to being no more than the

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tenant farmers of the poor, will dry up the sources of savings, will stop the accumulation of capital, will retard the development of trade, will benumb human industry and activity, and will culminate by bringing about a violent revolution in the state, when the number of those who receive alms will have become as large as those who give it, and the indigent, no longer being able to take from the impoverished rich the means of providing for his needs, will find it easier to plunder them of all their property at one stroke than to ask for their help" (Drescher, 1968, pp.1-2).

Clearly, the writings of both Malthus and de Tocqueville not only reflected a belief that the system of public relief had negative economic consequences for the poor and for society at large, but it also incited fears regarding the consequences for personal and public safety. The degree to which this was rhetorical rather than based in the genuine beliefs of the authors is open to debate, but undoubtedly the publications of such prominent authors affected the ideology of the time.

In addition to concerns about the unintended consequences of the relief system, there were increasing concerns about the costs and efficiency of poor relief both in England and in America, where some 6 million immigrants, mainly German and Irish, landed between 1800 and 1860. In England, a major change was brought about in the system after the electoral reforms of 1832 led to a transference of power from the landed, mercantile classes, who had generally supported the system, to the manufacturing interests, who were highly critical of it. Parliament created a Poor Law Commission which concluded that the prevailing poor law system, and particularly wage supplementation, was responsible for undermining the character and energy of the English laboring classes. This commission recommended the appointment of a national supervisory body to oversee administration of poor relief and the amalgamation of parishes into a

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smaller number of units in order to improve coordination and efficiency. It also recommended an end to assistance for able-bodied persons, except in public institutions.

In America, too, there was a growing belief that outdoor relief was "more harmful than the pain it (was) intended to relieve," and there was increasing resentment and perhaps fear, of large numbers of immigrants spending much time in idleness, and, in the case of the Irish and Germans, in the neighborhood bars. In America, as in England, however, the system was already too entrenched to be easily dismantled. Critics had to be content with replacing outdoor relief by indoor institutional relief. This move was supported by the Yates Report, the first comprehensive survey of poor relief in the United States, which cited four main methods of public assistance - home relief, the contract system, the auction system, and institutional relief. It reported that where the poor were farmed out, by contract or by auction, they were often abused, and the children neglected, subject to disease and uneducated. Home relief, however, led to idleness, and the able-bodied receiving such relief were often unemployed. The solution, according to the Yates report, was institutionalization. The nineteenth century, then, saw a major expansion in institutions for the poor. Almshouses were constructed for the disabled, elderly or other `worthy' poor, and workhouses for the able-bodied poor.

Along with an increase in local institutions, increases in non-resident populations led to the building of state institutions, and, in 1854, Congress passed a bill that would have provided federal aid for the mentally ill. This was vetoed, however, by President Franklin Pierce, who noted that, "If Congress has the power to make provision for the indigent insane . . . it has the same power for the indigent who are not insane . . ." adding that he could not find any authority in the constitution for "making the Federal Government the grand almoner of public charity throughout the United States" (Trattner, p.68). Pierce felt that to do so would be contrary to the letter and spirit of the Constitution, and subversive of the theory on which the United States was

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founded. This strong stance deferred the time when federal aid would gain widespread acceptance as a means of dealing with the problems of poverty.

While nineteenth century America was remarkable for the growth in public institutions, these did not supplant private charity, which continued to grow, and was particularly evident in the period of depression following the financial panic of 1837, and during and after the Civil War. Private charitable institutions proliferated, especially towards the end of the nineteenth century, when public relief fell into disfavor. While the causes of this are subject to debate, contributing factors included reports of fraud and corruption; a perception that it was ineffective; the influence of Smith, Malthus, and de Tocqueville; and the publications of scholars such as Herbert Spencer, who argued that the government should confine itself to ensuring liberty of the individual by protecting citizens from attack upon their persons or property, and had no role in such matters as health, education or business regulation, let alone public relief.

Among the private organizations formed during this period, the U.S. Sanitary Commission was quite remarkable. Organized in 1861, the main objective of this commission was to unite the various local voluntary relief societies into a national organization that would supplement government agencies in meeting the spiritual and physical needs of the men in uniform. Working among the troops in army camps and field hospitals, providing education, housing, food and clothing, this organization was so successful that J. S. Mill said of it, "History afforded no other example of so great a work of usefulness extemporized by the spontaneous self-devotion and organizing genius of a people altogether independent of the government" (Trattner, p. 81).

Another feature of this period was the growth of the Settlement House movement. Residents of the settlement houses saw themselves as social reformers, who sought to understand the poor by living among them, and to eliminate poverty by understanding its causes. The first

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settlement house, opened in 1886, was based on the idea that groups of residents on a street or a number of streets should "be organized into a set of clubs which are, by themselves, or in alliance with those of other neighborhoods, to carry out, or induce others to carry out, the reforms -- domestic, industrial, educational, provident or recreative -- which the social ideal demands" (Trattner, p. 170). The settlement house workers, generally upper-class and well-educated, published books and magazine articles, held meetings and made speeches, and fought in legislative halls as well as urban slums. They were instrumental in the founding of the first Juvenile Court and in passage of state child labor laws.

One of the major outcomes of the settlement movement was the large amount of research, and specifically the founding, in collaboration with other groups of the Charities Publication Committee. This committee undertook studies of social conditions, which inspired a further major investigation--the Pittsburgh Survey. Published in 6 volumes between 1909 and 1914, and containing page after page of statistics, this report sought to estimate the costs of preventable diseases, industrial accidents, low wages, and other factors associated with the living conditions of the poor in New York. These publications led to a reexamination of the causes of poverty and the degree to which they resulted from personal inadequacies or socio-economic factors. The degree to which the latter were gaining credence with voters is evidenced by the adoption in the Progressive Party's 1912 presidential platform of an 8-hour work day (replacing 12 hours) a 6-day work week and the prohibition of child labor. Writing about the reforms proposed at this time, Trattner notes that they nearly all involved to some extent "limitations on private property rights and the extension of public authority into areas previously regarded as the exclusive reserve of the individual" (p.184).

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D. The Growth in the Role of Federal Government

The early twentieth century marked a major milestone in the development of the welfare system from a voluntary system of individual private charity to one which was administered and legislated by national and state governments, and financed by taxation. While private charity coexisted with public aid, and was particularly forthcoming in times of need such as wars and depressions, the growth in this form of aid was far surpassed by the increase in federal aid in the twentieth century. While the nineteenth century had seen an increasing role for states in taking on previously local responsibilities, there had not been a major federal role, except for wartime activities such as the establishment of the Bureau of Refugees, Freedmen, and Abandoned Lands in the War Department. This entity, which became known as the Freedman's Bureau, was initially authorized to provide relief during the war and for one year afterwards, but Congress subsequently extended its life for an additional six years. After this period, the federal government withdrew from the social welfare scene and the states took on a greater role both by increasing the numbers of institutions, and by establishing State Boards to coordinate state institutions and improve their efficiency. It was not until the twentieth century that the federal government would return to be a major player in the welfare system.

Among the factors which led to an increased role for the federal government was the increasingly sophisticated lobbying from the organized charity groups, as well as reform groups such as the settlement workers, mentioned earlier, a highly educated group who undertook extensive research, publishing, and lobbying of both state and federal politicians. A number of studies published by these groups, including one by the New York Charitable Organizations Society in cooperation with Columbia University indicated that, during the period under study, from 1890-97, a period of depression, lack of employment was the primary cause of poverty, while sickness and accident were second, and "shiftlessness and intemperance" third, accounting

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for 10 percent of the cases. It is not clear, however, how a distinction was made between those who had no job due to "shiftlessness" and those who could not find any employment.

While difficulties persisted in determining the degree to which the able-bodied unemployed were responsible for their own condition, and thus support for them was limited, the plight of children generally caused concern. As Trattner has noted, "almost every . . . agency or individual working for social betterment saw in children the possibility for constructive altruism. As a result, a broad child welfare movement swept through America from the mid-nineteenth century through the early twentieth, one unlike anything before it or after it" (Trattner, p. 110). The increasingly well-organized welfare groups, including the Charitable Organizations Society and the settlement houses, espoused the cause of children, who throughout the nineteenth century, had at various times been placed in almshouses (with convicts, the mentally ill and others considered in need of institutionalization), been shipped out to the west to be reared on farms, and been contracted out to homes, where at times they were subject to neglect and abuse. In addition to the publications of welfare groups and academics, writers such as Charles Dickens in England brought the plight of children to the attention of the general public. A major outcome of these efforts, was the first White House Conference on Dependent Children in 1909, which gave welfare issues a prominent place in national life, and which resulted 3 years later in the creation of the U.S. Children's Bureau, clearly marking a milestone in the involvement of the federal government, and a complete reversal of the philosophy espoused half a century earlier by President Franklin Pierce.

The efforts that led to the creation of the Children's Bureau illustrate the power of interest groups and the high level of resources they invested in swaying government policies. The proponents of child welfare had long fought for increased legislation, more funding and more government administration and oversight. This group included social workers, civic

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organizations, public health groups, labor unions and various individuals, all of whom sought to gain, materially or otherwise from increased resources for child welfare. They undertook and published research, held meetings and lobbied extensively. The losers from the measure were business interests, who feared that the bureau would bring an end to child labor, which they had a vested interest in preserving. The extent of their lobbying is reflected in the contentious nature of the five day debate on the Senate floor prior to passage in which opponents of the bill charged that supporters were working under orders from communists and socialists who wished to control the nation's youth.

The political sophistication of the early welfare administrators is well illustrated by the first head of the Children's Bureau, Julia Lathrop. Trattner describes her thus: "(she) believed fervently in the importance of public welfare and in the need to rejuvenate services set up by the taxpayers to help those in need. She also knew how to use the potent constituency network she had at her disposal and, at the same time, recognized the need to avoid controversy and to divorce politics from social welfare in order to gain and retain congressional support for the new bureau. At the outset she thus subordinated studies of child labor in favor of less controversial ones, such as the problem of infant mortality. She therefore won confidence in the new agency and additional resources for it; by 1915, for example, its funds had achieved a sixfold increase, and its staff had multiplied by a factor of five" (Trattner, p. 219). By 1918, however, Julia Lathrop was beginning to take on controversial causes, including federal grants to state for public health facilities, hospitals and other institutions falling under the aegis of the medical profession. Lathrop's proposals were contained in a bill which became known as the Infancy and Maternity, Sheppard-Towner Bill, introduced in 1918. This bill was fiercely contested by members of the medical profession, who ran a highly-organized and well-financed campaign, accused the bills proponents of socialism and communism, and published pamphlets with titles such as "Shall the

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Children of America become the Property of the State?", circulated by the Legislative Committee of the Illinois State Medical Society. The bill was passed three years after its introduction, but was rescinded 8 years later, again after a forceful campaign by the medical profession. Control of female operated infant and maternal health centers was removed and returned to the hands of private male physicians, and many state facilities lost support.

One of the major long-term effects of the bill was in setting the precedent of grants-in-aid to states for welfare programs other than education. Precedents were also set in this period for government intervention in a broader range of activities, particularly pensions and insurance. In April 1911, Missouri enacted the first widow's pension law, which provided aid to full-time mothers with children. Other states rapidly followed suit and by the time the Social Security Act was passed in 1935 all but two states, South Carolina and Georgia, had implemented such programs. These statutes were the forerunners of Title IV of the Social Security Act, which established the federal program of Aid to Dependent Children, the major program of cash assistance for needy families with children. Revised and retitled in 1996, this program is now known as Temporary Assistance for Needy Families, and is discussed in detail in the following chapter. Other measures passed in the first two decades of the twentieth century included enactment of worker's compensation in 43 states between 1909 and 1920, (measures which appealed to employers, who thus avoided the large payments occasionally awarded by courts, and who thus supported the proposals), and old age pension laws, which were generally weak and often inoperative. Efforts to implement health insurance were strenuously and successfully campaigned against by an alliance that included the medical profession, insurance companies, and employers groups.

The decade of relative prosperity which followed World War I saw few changes in the nascent welfare system. This was changed abruptly, however, by the stock market crash of 1929,

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and the Great Depression, although it was not until 1931 that any major action was taken. Between 1929 and 1932, about one-third of the nation's private welfare agencies disappeared for lack of funds, while millions of workers were unemployed, farmers lost their lands and businesses closed. President Herbert Hoover opposed federal aid, believing it would delay the natural forces at work to restore the economy, impair the solvency of the government, establish more politicized bureaucracies, and undermine free enterprise. "You cannot extend the mastery of government over the daily lives of the people without at the same time making it the master of their souls and thoughts," he declared; and, in response to a measure proposed by House Speaker John Garner and Senator Wagner of New York calling for a public works program to stimulate the economy and create jobs, Hoover remarked that, "never before in the nation's entire history has anyone made so dangerous a suggestion" (Trattner, p. 279). This strong stance did not withstand three winters of depression, in which not only private and local resources, but also state funds were depleted, and in summer 1932, in the face of mounting public pressure, Hoover signed a relief bill providing federal loans to states for general and work relief.

E. From New Deal to Great Society

The decisive rejection of Hoover in favor of President Franklin D. Roosevelt marked the beginning of a new era. While Governor of New York, Roosevelt had introduced the first State Unemployment Relief Act, the Wicks Act. Working on the belief that unemployment, and consequent misery, was generally caused by an uncontrolled economic system rather than by the unemployed themselves, Roosevelt plunged the federal government into the welfare business. Public works programs such as the Public Works Administration and the Civilian Conservation Corps provided employment for millions of citizens, up to a third of all the unemployed. With lower pay and fewer hours than private sector jobs, the programs were constructed so as not to be a threat to private sector interests. The Federal Emergency Relief Act of 1933, which made

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available $500 million for grants to the states, signified the beginning of an increasingly large flow of federal dollars to the states for welfare programs.

By far the most important and far-reaching piece of legislation to come out of the New Deal, however, was the Social Security Act of 1935. The motivations behind this legislation were multiple. Aside from humanitarianism, the role of fear is apparent in Roosevelt's statement that "Democracy has disappeared in several other great nations because the people of those nations had grown tired of unemployment and insecurity . . . in desperation they chose to sacrifice liberty in hope of getting something to eat. We, in America, know that our democratic institutions can be . . . made to work," providing that the "government is equal to the task of protecting the security of the people" (Trattner, p. 288). This security was to be provided by the Social Security Act, which was an omnibus measure incorporating both public assistance and social insurance. It provided old-age insurance and public assistance for the aged, unemployment insurance, aid to dependent children in single parent families, to crippled children and to the blind, and federal funds for state and local public health work. The strong and increasing influence of older citizens was reflected in the remarks of the executive director of the committee which developed the program, Edwin Witte, who expressed the belief that without pressure from the elderly he doubted "whether anything would have gone through at all" (Trattner, p. 290). In addition to serving the needs of the growing numbers of elderly who were increasingly becoming organized as an influential pressure group, some have argued that employers had a vested interest in encouraging older workers to leave the workforce in order to hire younger, more productive employees. Thus a combination of humanitarianism, fear, and political expediency on the part of the federal government and self-interest on the part of state governments, along with the self-interest of the elderly and employers, and the mix of ideological and expansionary motivations of

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welfare workers, interacted to give rise to one of the most monumental pieces of welfare legislation ever passed.

Shortly after the passage of the New Deal legislation, the outbreak of World War II served to divert the attention of the nation away from domestic problems. Moreover the war years and the decade following were periods of relatively full employment and increasing incomes. It was not until the early 1960s, and the arrival on the scene of President Kennedy, that welfare issues again became prominent in the national policy arena.

Among the factors leading to renewed concern about poverty was the mass migration from rural areas to cities, as farming became modernized. Between 1950 and 1965 agricultural production increased 45 percent and farm employment fell by the same percentage, and it is estimated that over 20 million people were forced off the land, especially in the South. The migration of these unemployed masses came at a time when the need for unskilled labor was declining, leading to the development of even larger and more crowded ghettos and a doubling of the numbers of welfare recipients between 1960 and 1970. In addition to economic factors, social factors such as the increasing divorce rate may have played a role in the increase in welfare caseloads. Moreover, the increasingly well-organized and vocal civil rights movement brought vividly into focus the impoverishment of blacks and the racism with which they had to contend. These issues and the publication of the 1960 census figures led to a renewed debate on the problems of poverty, and an outpouring of articles in research journals and the popular press. One of the most widely read journalists and social activists was Michael Harrington, who argued that the system created and perpetuated the poverty it was intended to alleviate (Harrington, 1964). Similarly Richard Elman claimed that welfare programs collected the poor into "stagnant pools of dependent people who become increasingly separated from the mainstream of economic life"

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(Elman, quoted in Trattner, p.318). These writers, however, did not call for an end to welfare but for more welfare with no strings attached.

The Kennedy and Johnson administrations introduced an array of new welfare measures, known as the New Frontier and the Great Society respectively, in the early and mid 1960s. It is noteworthy that these programs were not primarily the result of popular demand for an expanded welfare system. Rather, as Senator Daniel Patrick Moynihan has pointed out:

> The plain fact, the large and indispensable fact, is that the attempt to address the issue of poverty in the whole of the United States came in the first instance from an informal committee of a half dozen persons thinking up themes for President Kennedy's 1964 reelection campaign. At one point it appeared that the likeliest choice would be the emerging, challenging problems of the suburbs. Poverty held on, however, . . . But the electorate never asked for it; the *poor* never asked for it. (Moynihan, 1996, (2) pp. 82-83)

While presidential politics was undoubtedly a key factor in both the New Frontier and the Great Society, debate continues on the relative impact of socio-economic conditions, the intellectual climate arising from the works of Harrington and others, and the influence of the civil rights movement and other social activist groups. Such factors may have laid the groundwork for persuasion of the electorate that the poverty issue was in fact an important area for government action.

Whatever the relative causal factors behind the program proposals, there is little doubt that a key factor in the passage of much of the Great Society legislation was the power and political savvy of President Johnson, who wanted to bring to life his personal vision of the Great Society. The manner in which he achieved this was quite remarkable. As one student of the period has noted, "Johnson's tireless political crusade for the Great Society's legislative agenda was a monument to his political skills, but it also sowed the seeds for intractable problems later.

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It was vintage Johnson. He wheeled and he dealed. Small favors that meant a lot back home were traded for key votes. Insufficiently enthusiastic lawmakers were brought down to the ranch for a dose of charm or pressure, which ever was more effective. . . . Little time was spent on thinking through the implications of `creative federalism', the nebulous term Johnson used to describe far-reaching changes in the federal relationship, but much was devoted to striking bargains with governors and Congress" (Butler and Kondratis, 1987, pp. 9-10).

A similar view of the legislative process and the role of the Presidency at this time has been put forward by Lawrence Friedman, who claims that, with the exception of the civil rights legislation, the Great Society legislation was driven by presidential determination, rather than by a social movement pressuring congress, and thus it was riddled with concessions to powerful lobbies (Friedman, 1977). Even after the passage of legislation, Johnson would make concessions to the defeated lobbies to win their acquiescence. Thus, after the passage of Medicaid and Medicare, Johnson invited the AMA lobbyists to the White House and assured them that administration officials would listen closely to their advice in the development of program rules and regulations. The officials did so, making numerous concessions that reportedly contributed to vast increases in program costs (Butler, 1987).

Support for the new programs was further shored up by incorporating non-profit organizations, thus giving private social welfare advocates and professionals a vested interest in the implementation of the programs. According to a study made by the Urban Institute, the close ties between the federal government and the non-profit sector renders it a virtual "third party government", which, by 1980, received about 58 percent of revenues directly or indirectly from the federal government (Salaman and Abramson, 1982, p.44).

In addition to co-opting special interests in the private and nonprofit sectors, Johnson also needed the cooperation of the lower levels of government that would be responsible for

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implementing programs under the new legislation. Stuart Butler has remarked that the Great Society was an explicit attempt to use federal power to marshal national resources to address problems that some lower levels of government had failed to tackle (1987). In some cases, such as civil rights, this was due to deliberate obstructionism on the parts of local interests, while in others it was due to lack of commitment or resources. The arrangements made between federal, state and local governments -- Johnson's "creative federalism" -- were based on political compromises and the promise of increased federal funds. What was not clear, *a priori*, was the degree to which federal officials would become involved in the details of local programs ranging from new towns and economic development to education and job training (Butler and Kondratas, 1987).

Among the major legislative activities of the Kennedy-Johnson era were the expansion in 1961 of the Aid to Families With Dependent Children (AFDC) program to two parent families if the head of household was unemployed, and, in 1962 Amendments to the Social Security Act, which greatly increased federal funds to the states for welfare programs. Other programs included the Area Redevelopment Act of 1961 and the Economic Development Act of 1965 which were designed to encourage industries to relocate in depressed areas, the 1962 Manpower Development and Training Act, the Food Stamp Act of 1964, Medicare and Medicaid amendments to the Social Security Act in 1965, and the Economic Opportunity Act (EOA), of 1964. The EOA was intended to be part of Johnson's "unconditional war on poverty . . . which threatens the strength of our nation and the welfare of our people" (Trattner, p. 323). It established programs such as the Job Corps and Head Start for preschool children, and was generally focused on providing education and training, on the implicit assumption that this would lead increased employment and reduced poverty.

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The increased involvement of federal officials in state and local government programs reflects in part a widespread view at the time that these entities were ineffective. The situation was described by one former state governor in 1967:

> "The states are indecisive. The states are antiquated. The states are timid and ineffective. The states are not willing to face their problems. The states are not responsive. The states are not interested in the cities. These half dozen charges are true about all of the states some of the time and some of the states all of the time" (Terry Sanford, *Storm Over the States*, quoted in Butler, p. 63).

In the South in particular, legislatures met briefly and infrequently, voting rights were effectively denied to blacks in many jurisdictions and the general economic plight of the region resulted in few if any programs directed to the poor and minorities. To force the hand of lower levels of government, federal grants were increasingly accompanied by detailed mandates and regulations. Both the funds and the programs grew steadily in succeeding decades. In 1965, about $10 billion was distributed to the states, a figure which grew to over $60 billion by 1980, funding almost 500 federal programs. (Butler and Kondratas, 1987).

These funds, however, did not necessarily end up in those areas of most dire economic need. The beneficiaries, including state and local government agents as well as private interests, found that "the political dynamics favored them over the proponents of a national interest" (Butler, p. 67). There is considerable evidence that political clout and influence determine the distribution of federal grants, not poverty and distress. For example a study of federal grant disbursements by Randall Holcombe and Asgher Zardkoohi, found no statistically significant correlation between discretionary grants and standard determinants of poverty (1981). On the other hand, "the data showed the grants to be allocated based upon political power. Per capita grants were higher in those states with more seniority in the Senate, with a larger percentage of

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majority party members in the House, and with members on the influential House and Senate committees" (p. 399). Similarly a 1977 Congressional Budget Office study of federal economic development programs found that counties in the top fifth of per capita income received considerably more assistance per resident than those in the bottom fifth (Congressional Budget Office, 1977).

Increased federal funding for states during the 1970s and 1980s was accompanied by, though not necessarily causally related to, a transformation of state governments. Voting rights and civil rights legislation undoubtedly contributed to the increased responsiveness of state governments to the electorate. In addition, the federal requirements attached to the multitude of Great Society programs served to build up a professional state bureaucracy. Although disillusionment with the welfare system was widespread, the increased efficiency of state government was reflected in public opinion polls which showed that by the early 1980s a large majority of Americans believed that state legislatures were better at overseeing the day to day business of government, more understanding of community needs and more efficient in managing social programs (Gallup poll, September 1981, Opinion Outlook, February 12, 1982, and Louis Harris Poll, June-July 1979, State Legislatures, November 1979, p. 23, both quoted in Butler, p. 83).

The proliferation of welfare programs led to increased bureaucracy and power struggles over who was to control the programs, and thus reap the rewards. Among the winners were the mayors, who "were able to create high-paying jobs for faithful political supporters and thus strengthen their hold on office, at the same time preventing meaningful political and social action by the needy, who might otherwise have jeopardized the status quo" (Trattner, p. 324). While conservatives called the program a Madison Avenue Deal and the "Santa Claus of the free lunch," radicals attacked it as a "huge political pork barrel" and a "prize piece of political pornography."

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Pressure from both sides was accentuated by general disillusionment with the program, noted by one of its designers, Senator Moynihan, whose book, *Maximum Feasible Misunderstanding*, published in 1969, concluded that the war on poverty accentuated doubts about the capacity of social science to plan, and government to deliver, ambitious programs for social betterment.

F. From Nixon to Bush: Attempts to Reform the System

Disillusionment with war on poverty programs, and the advent of the Vietnam War did not mark the end of welfare expansionism, despite the expectations when Richard Nixon was elected in 1968. While the population on poverty had declined from 40 million, or 20 percent of the population in 1960, to 25 million or 12 percent of the population in 1969, the number of welfare recipients and total welfare expenditures continued to climb. Between 1963 and 1966, for example, federal welfare grants to the states doubled, and one million persons were added to the caseload. This was a period when expectations were rising, partly as a result of the political rhetoric regarding ending poverty and partly due to the rise of increasingly well-organized and vocal civil rights and other advocacy groups, which were already in the 1960s hiring full time paid lobbyists to work in Washington, and organizing mass demonstrations. Perhaps partially in response to these political events, President Nixon not only failed to reduce federal welfare programs, but also, particularly in 1972 when he was running for reelection, contributed to their expansion.

Among the major legislation passed by the Nixon administration was a 20 percent increase in Social Security benefits in 1972, followed by a further 11 percent in 1974 and indexing to the cost of living, expansions of the Food Stamp Program and making it mandatory for all states, a transfer from shared state and federal funding to full federal funding of Old Age Assistance, Aid to the Blind and Aid to the Permanently Disabled in 1972, introduction of the Earned Income Tax Credit (EITC), and adoption of the Supplemental Security Program in 1974,

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which created the nation's first guaranteed national income program to the needy elderly, blind and disabled. These measures led one analyst to assert that "the greatest extensions of the modern welfare system were enacted under the conservative Presidency of Richard Nixon . . . dwarfing in size and scope the initiatives of (the Kennedy-Johnson era)" (Trattner, p. 351).

One major piece of legislation that Nixon was unsuccessful in passing was the Family Assistance Plan, a program to extend cash income for the poor who were not aged, blind or disabled. Shortly after his election Nixon selected as his welfare policy advisors: Richard Nathan, a research associate from the Brookings Institute (who was appointed assistant director of the Budget Bureau in the new administration), Marion Folsom, a secretary of Health Education and Welfare in the Eisenhower Administration, Wilbur Smith, the secretary of the Wisconsin Department of Health and Social Services, and Mitchell Ginsberg, chief of the New York Human Resources Agency which administered the nations largest welfare program. Among the proposals of the Nathan team was the introduction for the first time of a national minimum AFDC cash payment that would be fully federally funded.

While at first glance it seems remarkable that such a proposal should arise in a Republican Administration, when one looks at the legislative process under which this legislation was formulated, and the institutional affiliations of the persons involved, it is clear that the outcome was relatively predictable. In addition to the Nathan team, the proposal was supported by Daniel Patrick Moynihan, the executive secretary of the President's Council on Urban Affairs (UAC), a cabinet level group that included Labor Secretary George Schultz and Agriculture Secretary Clifford Hardin. The plan thus had inside support in the White House, HEW, and the Budget Bureau. State Governors and editorial writers supported it on the outside. It also had enemies, however, most notably economist Arthur Burns, who was appointed chief domestic

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policy advisor, and other members of the UAC. In February 1969, President Nixon chose sides and remarked that he supported the establishment of national standards (Burke and Burke, 1974).

When details of the plan were scrutinized, it became subject to increasing criticisms both from other factions within the administration, and from outside special interests. One of the earliest attacks was from an outgoing HEW official, Worth Bateman, (a Johnson appointee) who noted, among other problems, that it provided financial incentives to break up intact households, particularly those headed by a working male. Bateman had earlier proposed a negative income tax (which was also supported by Milton Friedman) as a way of dealing with the contradictory objectives of adequacy of payments versus work incentives. Bateman was subsequently appointed to an administration working group on welfare and drew up an alternative to the Nathan plan, most notable for its inclusion of a negative income tax and not confined to families with children.

The two welfare plans, with their different groups of supporters and detractors, became the center of ongoing and divisive competition and intrigue within the administration, as vividly described by reporters Burke and Burke (1974). Moreover, Arthur Burns, who was vehemently opposed to any plan that would add to the welfare rolls and have significant negative budgetary consequences, subsequently developed and presented his own plan to the President. Not being convinced by either plan, the President asked the advice of George Schultze, who devised a plan that contained some elements of both the Nathan and Burns plans.

In making a final decision regarding which, if any, plan to support, certain political tests had to be applied. These are tests to which any major presidential proposals are submitted before going to Congress. The first regards the effect of the proposal on special interests with a political claim on the President. The second test concerns the presidential reputation and legacy. In theory, a bold welfare reform could enhance Nixon's reputation as a leader willing to confront a difficult issue and put an end to the welfare mess. Moreover, if the Democratic congress failed to pass

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Nixon's proposed legislation, they would be held responsible for the continuation of a discredited welfare system.

Evidently, Nixon felt the legislation passed the tests. The proposal, which included a vastly expanded cash welfare program and an enlarged food stamp program, was sent to Congress in October 1969. Proponents of an adequate base payment, as well as proponents of generous work incentives were accommodated by higher guaranteed payments and income disregards. The Secretary of Agriculture and Senator George McGovern, Chair of the select Committee on Nutrition and Human Needs, were accommodated by an expanded food stamps program. Governor Rockefeller, who had complained that New York fared badly in comparison to the southern states, was accommodated by language in the bill that gave guarantees to the states.

In spite of all the compromises made during the course of developing the welfare legislation, which came to be known as the Family Assistance Plan, its fate as it went to congress was highly uncertain. In December 1969, Representative Wilbur Mills, chairman of the House Ways and Means Committee which had been studying the bill since its submission in October, predicted that the bill would not pass since liberals thought it wasn't enough and conservatives thought it a guaranteed income. Nevertheless, he managed to shepherd the bill through the House where it was passed by a vote of 243 to 155 on April 16, 1970 (Burke and Burke, 1976). In the interim Mills, with the agreement of the administration, had made further concessions to the nation's governors, guaranteeing higher federal supplements to states for the new program.

In the Senate, the bill ran into very rough weather. The Senate Finance Committee, which considered the bill, was dominated by conservatives who criticized the fact that the so-called reform would do nothing to address one of their major concerns, the anti-work incentives of the existing program. Despite adjustments made and presented by Elliot Richardson, the secretary of HEW, the Senate did not buy the plan. In the end it was mathematically impossible to

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simultaneously satisfy liberals by providing adequate coverage, satisfy conservatives with adequate work incentives, and do this within budgetary limits acceptable to fiscal watchdogs. The bill was buried in committee in late 1970, from where it was never resurrected.

Thus after over two years of intensive work on developing this legislation, and numerous concessions made to shore up support, no major reform to AFDC was passed. A number of causal factors may be proposed: the infighting between groups in the White House; the inherent impossibility of simultaneously satisfying liberals with generous benefits and conservatives with strong work incentives and limited budgetary outlays; and the vociferous opposition of interest groups from both right and left. Moreover, it is notable that the idea was hatched by a group of administration officials affiliated with HEW whose goals were a combination of the political -- passage of a Nixon welfare reform bill that would enhance the President's image -- and ideological -- developing a more effective welfare system. As the Burkes have noted, "Even after the president proposed it, the working poor never pushed for wage supplements for themselves, perhaps because they were ignorant of the proposal, perhaps because they shunned the stigma of welfare. Among dozens of congressmen during the first year of debate on the proposal none was found who received a single letter from a potential beneficiary" (p. 99).

Lack of grassroots support was compounded by the fierce opposition of some powerful interest groups. The AFL-CIO fought against the plan on the grounds that wage supplementation undermined the rationale for a higher minimum wage, and that the bill weakened their case for a government guarantee of jobs for all the unemployed. Some liberal groups wanted the federal government to take over welfare completely to improve treatment of the poor, particularly in the South, and when Nixon withdrew from this initial position, he lost the support of such interests. Other liberal groups, particularly unionized welfare workers on the payrolls of northern states and counties opposed the bill because at worst it might eliminate their jobs and at best it would

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transfer them to the federal payroll, eliminating benefits such as free pensions and free health insurance, for which under the federal system they would be obliged to make partial payments (Burke, p. 145). The National Welfare Rights Organization opposed the bill on the grounds, inter alia that, while the poorest of the poor in the south would have increased benefits, urban welfare mothers in the north would be obliged to work, and future benefit increases might be impeded because of increased costs to their state treasury. Some white southern conservatives felt that by giving cash to six or seven million more recipients, many of them in poor working families, the supply of cheap labor would shrink and taxes would be increased. In the end, despite the best marketing efforts of White House and HEW officials, they were no match for the highly organized and vocal opposition both within the congress and among the special interest groups.

The Nixon Presidency was ended by Watergate, and was followed by the generally ineffectual administrations first of Gerald Ford, and then of Jimmy Carter who had claimed at the beginning of his administration that the welfare system should be scrapped and a totally new system implemented. The failure of Carter to maintain public confidence in the face of stagflation in the economy and several foreign affairs crises led to a landslide victory for Ronald Reagan in 1980.

President Reagan espoused low taxes, small government, a strong military and a transfer of power from the federal bureaucracies to the states and localities. He was extremely effective in achieving the first three goals -- increasing the defense budget, cutting taxes, terminating some welfare programs and slashing funding for others. None of the major means tested programs escaped cuts. His attempt to transfer power to the states, the "New Federalism", failed to gain much support from either party but Reagan did succeed in introducing legislation which allowed states to replace some AFDC federal regulations by state designed provisions. (These state

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waivers were to be extensively used in subsequent years as states experimented with the AFDC program.)

Reagan also met with vigorous opposition when he proposed cutting programs such as Social Security and SSI, the lobbying groups for which, as mentioned earlier, were highly financed and well organized. A compromise measure was eventually signed in 1983, by which time the poverty rate was the highest in 20 years, and the budget deficits were the highest in history. In contrast to his position at the beginning of his term of office, Reagan signed a $9.6 billion relief package in 1983, almost half of which was earmarked for the creation of 300,000 to 600,00 public service jobs. Five years later, in October 1988, just one month before the presidential election, he signed the Family Support Act, another piece of legislation that was primarily the work of Senator Moynihan.

A major feature of the Family Support Act was the creation of the Job Opportunities and Basic Skills (JOBS) program, which required single parents with children over three to work for benefits, or enroll in education or job training. Expenses for child care and transportation were to be paid for recipients for one year after they obtained a job, and Medicaid coverage was also extended for that period. Finally, stiff new child support enforcement measures were introduced in order to aid single parents to become self-sufficient. In spite of $6.8 billion in funding for this bill, the measures were not widely implemented by the states, according to a report issued in 1992 (Hagan and Lurie, 1992).

Ronald Reagan was succeeded in office by George Bush, a president who was more concerned with foreign than domestic affairs and who lost the presidency to Bill Clinton in 1992, having made very little mark on poverty or welfare issues, other than an increase in minimum wages from $3.35 to $4.25, and the passage in 1990 of the Americans With Disabilities Act, an act that was relatively uncontroversial at the time, cost the government little, and allowed a large

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number of disabled people to enter the workforce. The Clinton Administration came to power promising a major break with past policies.

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CHAPTER 5

THE GENESIS OF THE NEW WELFARE LAW – THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY ACT of 1996 (PL 104-193)

I. Candidate Clinton: Politics and Ideology

Bill Clinton was a populist candidate, who sought to communicate with the people, and spent much time doing so. Sensing the general disillusionment with the federal government, and dissatisfaction with growing social problems such as poverty and crime, Clinton addressed these numerous times in pre-election speeches. At his announcement speech in October 1991, he noted that "we should insist that people move off welfare rolls and onto work rolls. We should give people on welfare the skills they need to succeed, but we should demand that everybody who can work go to work and become a productive member of society" [1991, (a)]. Several weeks later, noting that middle class families were working more hours for less money and that the inner city streets were taken over by crime and drugs, welfare and despair, Clinton spoke about a New Covenant "to provide opportunity for everybody . . . (and) take government back from the powerful interests and the bureaucracy, and give this country back to ordinary people" [1991, (b)]. He added that "people think their government takes more from them than it gives back, and looks the other way when special interests only take from this country and give nothing back. And they're right" (Ibid). While these pre-election speeches did not contain many specifics for neutralizing special interests, they did include several policies which were intended to "break the cycle of dependency and help the poor climb out of poverty" including an expanded Earned

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Income Tax Credit for the poor, time limits for welfare without working, education, training, child care and tough new child support enforcement laws (Ibid).

The Clinton message, combined with general disillusionment with the Bush Administration and a strong third party intervention, led to a Clinton victory, albeit a narrow one, in the Presidential election of November 1992. The views expressed throughout the campaign continued to find voice after the election, however. In his State of the Union Address of February 17, 1993, for example, Clinton first made the oft quoted pledge to "end welfare as we know it", and he publicly introduced the concept of ending entitlement to welfare without work after a specified time period:

> Later this year we will offer a plan to end welfare as we know it. I have worked on this issue for the better part of a decade, and I know from personal conversations with many people, that no-one, no-one, wants to change the welfare system as badly as those who are trapped in it.
>
> I want to offer the people on welfare the education, the training, the child care, and the health care they need to get back on their feet. But, say, after two years, they must get back to work too, in private business if possible, in public service if necessary. We have to end welfare as a way of life and make it a path to independence and dignity.

II. President Clinton: The Clinton Bill

The political rhetoric was not converted into proposed legislation until some 18 months into the Clinton Presidency. During this time health care held center stage and, much to the consternation of some congressional Democrats, welfare reform received relatively little public attention from the administration, although discussions between HHS and the administration were going on behind the scenes. The most significant action taken by the President in 1993 was the naming, on June 21, of a 27-member task force to develop a welfare reform plan. This effort was led by Bruce Reed, deputy assistant to the president for domestic policy, and two assistant secretaries from HHS, David Ellwood and Mary Jo Bane.

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The slow pace of welfare reform in the administration during 1993 was matched by relatively little activity on the Part of Congressional Democrats. The frustration on the part of some Democratic members was indicated by Senator John Breaux (D-La.) who, on January 18, 1994 called for the Congress to address welfare reform with the same urgency as health care reform. (APWA, 1998).

House Republicans in the meantime had been more active, and Minority Leader Robert Mitchell (R-Ill.) introduced a welfare reform proposal (H.R. 3500) that was cosponsored by 160 Republican members in November 1993. Among other provisions this proposal required work in return for benefits, allowed states to convert AFDC matching funds to block grants, required paternity establishment in exchange for benefits and denied benefits to minor unwed parents. In the following six months, some half dozen bills were introduced, (2 Republican, 2 Democrat and 2 bipartisan), including Senator Dole's (R-Kan.) Welfare Reform Act of 1994 (S. 1795).

Arriving rather late upon the scene was the Work and Responsibility Act, or the Clinton Bill, as it was known, which was introduced into the Senate by Senator Moynihan (S. 2224) and simultaneously into the House by Rep. Gibbons (H.R. 4605) on June 21, 1994. The stated purpose of the Clinton bill was to amend the Social Security Act

> to revise the federal welfare system for the purpose of making AFDC a transitional program with the goal of enabling participants to achieve maximum economic independence and self-sufficiency by, among other changes, imposing time limited AFDC benefits and requiring participation in modified and new State administered job training and subsidized employment programs that have been designed to eventually move them into the permanent work force and prepare them for a life without welfare by enabling them to get work experience and by requiring them to perform job searches for suitable non-subsidized employment (p.1).

The major elements of the Clinton bill were:

1. a two year time limit on benefits for adults who were not working;

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2. a requirement that all recipients able to participate in JOBS do so, on a phased in basis, starting with those born on or after 1972;
3. a requirement that the states establish a new program, WORK, for those without jobs after two years. This would be financed with federal matching funds. Wages would be paid for WORK hours, and 15 to 35 hours would be required of participants. AFDC payments could be used to supplement WORK payments where necessary. Mothers of children under 1 year were exempt.
4. a state option to deny benefits for additional children born to a welfare mother;
5. a requirement that unmarried minor mothers live at home in order to receive benefits;
6. a state option to implement more liberal rules regarding two parent families and more generous discounting of all recipients earnings;
7. a requirement that states disregard a higher asset limit when assessing eligibility or benefits;
8. a requirement that states implement individualized employability plans for welfare recipients that assessed, inter alia, literacy skills and need for job training, substance abuse, child care or other services: the recipient, on her part, was required to sign a personal responsibility agreement;
9. a requirement that the sponsors of legal aliens be financially responsible for them for a more extended time period (this was mainly a financing measure), and
10. provisions to enhance child support enforcement.

While some of these provisions constituted fairly radical departures from existing federal regulations, many of them had been implemented by some of the states on an experimental basis under state waivers from AFDC. These waivers, initiated in the Reagan administration, had expanded to a greater number of states during subsequent administrations. Time limits had been introduced in several states. Vermont, for example, under its waiver imposed a 30-month time

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limit for receiving benefits without work, while Colorado imposed a 2 year time limit. Similarly, several states, including California and New Jersey gave no increase in the benefit payment to a mother who had an additional child while on welfare (the family cap provision). Other states disregarded a higher level of family assets than federal regulations prescribed, in order to encourage savings, and/or disregarded a higher level of earnings to encourage work. Thus, the Clinton bill was to some extent merely codifying regulations that states had devised in their experimental programs under AFDC waivers.

While the Clinton proposal for a time limit on welfare was welcomed by the Republican leadership in both Houses, and a number of bills were introduced with different versions of these limits, the Democratic party was initially less than wholehearted in its endorsement. By May 1994, however, the Democratic Leadership Council praised the call for time-limited assistance as a "great conceptual leap forward" and said his pledge defined Mr. Clinton as a "different kind of Democrat" (Burke, 1995). The Clinton Bill was referred in the Senate to the Finance Committee, and the House referred it to three separate committees and seven subcommittees over the course of the following three months. The 103rd Congress took no action on these bills, however, other than holding several committee and subcommittee hearings, and when the Republicans swept to victory in November of 1994, the window of opportunity for the Democrats was firmly closed.

III. Republican Politics and Ideology -- The Contract With America

While the Clinton Administration had been focusing on health reform, House Republicans had been pushing their own welfare bill, H.R. 3500, which was endorsed by nearly every House Republican (Haskins, 1999). This bill reflected some of the ideas initially put forward by the Wednesday group, a band of about 40 House Republicans led by conservative Vin Weber and moderate Bill Gradison. As early as October 1991 this group had published a paper entitled "Moving Ahead: Initiatives for Expanding Opportunity in America" which

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recommended, inter alia, mandatory work and time limits. In the Spring of 1992, a member of this group, Clay Shaw, the senior Republican on the Welfare subcommittee of the Ways and Means Committee, had issued a report which declared that "the major goal of the Republican welfare policy is to ensure that families willing to work will be better off financially once they leave welfare and to achieve this goal, not by cutting welfare benefits, but by subsidizing work" (Haskins, 1999, p. 4). By the early 1990s, making work pay was a major item on the Republican welfare agenda and it was an integral part of H.R. 3500.

While H.R. 3500 was generally popular with House Republicans, some conservative interest groups were less than supportive. In fact, Empower America, a think tank headed by prominent conservatives such as William Bennet, Jack Kemp, and Vin Webber who had by this time retired from Congress, publicly denounced some of the proposals made by the task force that was working on the Republican bill (Haskins, 1999). Their major criticism was that illegitimacy and not work requirements should be the major focus of Republican welfare reform. In order to further shore up support for their legislation, Newt Gingrich, the second ranking Republican in the House, asked Republicans on the Ways and Means Committee and the Education and Labor Committee to work with conservative interest groups such as the Heritage Foundation, the Christian Coalition and others that would appeal to the conservative activist base of the Republican party.

Illegitimacy turned out to be one of the most divisive issues with which the Republican House had to deal. Conservative Republicans in alliance with conservative interest groups such as the Christian Coalition, the Heritage foundation, Empower America and others, threatened to publicly oppose the legislation unless stronger illegitimacy measures were adopted. A compromise between the extreme right, who would have ended all welfare for illegitimate children, and more moderate groups resulted in a bill which denied benefits to children born to

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unwed minor mothers or to a mother already on welfare. Both provisions subsequently passed the House but were defeated in the Senate which allowed States the option of excluding these groups.

The result of the collaboration between House Republicans and conservative interest groups was H.R. 4, the Personal Responsibility Act, which was incorporated into the Contract With America, the centerpiece of the Republican platform in the 1994 campaign. The Contract with America was comprised of ten separate bills, of which welfare reform was the third.[1] The origins of this document were both ideological and political. The Republicans needed, according to Rep. Dick Armey (R. Texas), "to demonstrate that with a Republican majority you would get a contract to actually get certain things done" (Congressional Quarterly, 1994). An advisor to the Republican campaign, Frank Luntz, advised GOP leaders that they needed "a fresh approach" if they hoped to attract those skeptical voters who had voted for Ross Perot in 1992 (Ibid). In a memo to the Republican leaders in September 1994 Luntz said, "After completing both an extensive telephone survey (. . .) and focus groups sessions with swing voters, I can say with confidence that the Contract is our best hope of winning back Perot voters, disgruntled Republicans and conservative Democrats" (Ibid). (Some Perot strategists did not share this assessment, however and John White, the architect of Perot's 1992 agenda, dismissed the contract as "pure chicanery".) The Contract had something for almost everyone: a balanced budget amendment, a line item veto, tax cuts for some Social Security recipients, and tax credits for families with children, in addition to welfare reform. The power of the document as a political

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[1] Other bills included: The Fiscal Responsibility Act, which proposed a balanced budget amendment and line item veto for the President; the Taking Back Our Streets Act, which dealt with crime; the Family Reinforcement Act dealing mainly with tax credits for elderly care at home and adopting children; the American Dream Restoration Act which provided expanded IRAs and tax credits for families with children; the National Security Restoration Act dealing with defense issues; the Senior Citizens Equity Act which increased the earnings disregard for seniors and reduced the amount of Social Security benefits that were taxable; the Job Creation and Wage Enhancement Act which proposed reducing capital gains and providing more generous business tax deductions; the Common Sense Legal Reforms Act dealing mainly with product liability; and the Citizen Legislature Act, providing for a term limits constitutional amendment.

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instrument was evidenced by the strong negative response from concerned Democrats in Congress and in the Administration, who labeled its economic content as Voodoo II. It was also confirmed by the Republican success in the 1994 elections.

IV. Republican Legislative Proposals

The Republicans had promised to bring to a vote within the first 100 days of the 103rd Congress, the package of 10 bills, which constituted the Contract With America. In a flurry of activity, they achieved considerable success in this goal. However, the third bill, the Personal Responsibility Act, which dealt with welfare reform and which was cosponsored by 110 Republicans and introduced as H.R. 4 on January 4, 1995, was far broader in scope than the Clinton proposals and went through many transformations before a final version of welfare reform was passed.

The major provisions of the Personal Responsibility Act (H.R. 4) were:

1. elimination of payments to unwed mothers under 18, or 21 at state option (the savings from which would be returned to the state for specified purposes including orphanages, group homes and abstinence programs);
2. lifetime limit on assistance of five years;
3. state option to terminate benefits after two years, after which neither benefits nor subsidized jobs would be available;
4. establishment of work programs and a requirement that by Fiscal Year 2003, 50 percent of recipients would be working in exchange for benefits;
5. consolidation of nutrition programs into a block grant with lower funding;
6. denial of benefits to legal immigrants and children who did not have paternity established, were born while the mother was on welfare or were born to an unwed mother under the age of 18;

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7. an overall cap on funding for an array of anti-poverty programs including AFDC; and
8. state option to convert AFDC to a block grant.

The net federal savings were estimated at $40 billion over five years. Overall, the bill was much tougher than the Clinton bill in terms of budget cutting measures, and much weaker in terms of work and training programs and requirements. Significant budget savings were achieved by denying benefits to immigrants and certain categories of children, cutting funding for some programs and introducing a fixed block grant for others. The end of open-ended funding and individual entitlement to AFDC payments were landmark changes in welfare policy and the source of bitterest opposition from liberals. A further major difference with the Clinton bill was the different emphasis on work. Under the Republican bill welfare recipients were required to work but there was no guarantee that a job would be available for all those willing and able to work. The Clinton bill contained several measures dealing with this.

The popularity of welfare reform (and, perhaps, the involvement of numerous interest groups) was evidenced by the fact that over two dozen different bills dealing with this topic were introduced during the 103rd Congress, most of which died in committee. Not surprisingly, the Republican proposal was strongly opposed by a number of Congressional Democrats including House Democratic Leader Richard Gephardt, who, in a February 10 news conference charged that H.R. 4 as proposed "does absolutely nothing" to replace welfare with work (Burke, March 6, 1995). In a similar vein, the Secretary of the Department of Health and Social Services, Donna Shalala, said Administration concerns about the Republican plan included: "no requirements for job search, education or training, no definition of required 'work activities' and 'very low' participation standards" (Ibid.). ('Participation standards' refers to the number of welfare recipients that a state must have enrolled in work or work related activities.)

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While public hearings on the bill were held in January, it was, according to a Congressional Quarterly report, "a series of closed door meetings among influential Republican House members, aides and governors that changed the face of the welfare plan" (CQ Almanac, 1995, pp. 7-36). The Republican Governors Association was represented by Govs. John Engler of Michigan, Tommy Thompson of Wisconsin, and William Weld of Massachusetts, who agreed to accept limited federal funding in return for vastly expanded state control over welfare and related social services. Transforming AFDC into a block grant fulfilled both of these requirements.

Democratic governors were not on board, however. While supporting greater state flexibility, they feared that an end to entitlement status might lead to financial difficulties in an economic downturn. The lack of consensus led to a bill that some governors from both parties criticized, fearing insufficient funds during recessions. Some also objected to denying aid to immigrants, and children born to unwed minors and those already on welfare.

The legislation was referred by the House to the three committees of jurisdiction: Ways and Means, Agriculture, and Economic and Educational Opportunities. In the House, the Ways and Means Committee began hearings in January, and approved the welfare bill on March 8. The bill coming out of Ways and Means, HR 1157, proposed two block grants for cash welfare and child welfare, gave states greater control over programs and limited federal funding. Significant program savings were made by provisions to deny benefits to immigrants and to reduce eligibility for the Supplemental Security Income (SSI) program. While states had discretion over the manner in which programs were implemented and the determination of who would be eligible, they were to be held accountable for certain end results, including requiring work participation of welfare recipients and reducing caseloads. Thus, 10% of recipients had to be in work activities by 1998, and 20% by 2003. The block grant could be reduced by 3% if a state failed to achieve the work participation standard. A further performance incentive was the provision of a cash bonus for

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reducing illegitimacy. The committee also changed the funding formula to provide additional funds to states like Texas and Florida that had the fastest growing welfare case loads. Funding was to be distributed in proportion to funding received for AFDC and related programs in 1994, or an average of 1991-94, whichever was larger. In the course of working out these provisions several dozen democratic amendments had been dismissed with little or no debate.

The Economic and Educational Opportunities Committee dealt with its area of jurisdiction with as much dispatch as had the Ways and Means committee. Republicans here had an even more unified front and dismissed nearly two dozen democratic amendments, many with little debate, before passing HR 999, in a party line vote and over strenuous Democratic objections. They recommended three block grants -- for child care, school meals and family nutrition programs. The Clinton Administration and the Department of Agriculture attacked the bill saying it would jeopardize children's health by restricting funding and eliminating nutrition standards. The department estimated that the two nutrition block grants would provide $7.3 billion less funding over five years. Republicans argued that consolidating the programs would save money and reduce paperwork (CQ Almanac, 1995).

The House Agriculture committee passed a bitterly contested bill, HR 1135, that cut the food stamp program, capped federal funding, denied benefits to most legal aliens, and required recipients to work. Although states were given more discretion and funding was capped, a block grant was not proposed. The degree of rancor on the usually bipartisan committee was reflected in an amendment circulated by Harold Volkmer (D-Mo) to name the bill the "Food Stamp and Commodity Reduction to Make Americans Hungry Act." "In my 15 years on this committee, I have never had anything this outrageous," said a red-faced Bill Emerson (R-Mo), committee sponsor of the bill (CQ Almanac, 1995, pp. 7-42).

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The three committee bills were amalgamated into HR 4, modified slightly to, inter alia, make legal immigrants eligible for more programs. The House opened debate on March 21 and passed (245-178) H.R. 4 on March 24 on a largely party-line vote. The House bill contained a few changes from committee provisions, notably allowing more immigrants to be eligible for programs, contingent on their sponsor's income. The bill promised savings of $66.3 million over five years. All but nine Democrats opposed it, the administration opposed it and so did some anti-abortion groups who feared that denying welfare to unwed teenage mothers would increase abortions. An indication of the dissatisfaction is reflected by the more than 150 amendments that were proposed, most of which were not given consideration. Among the amendments passed was a Republican proposal to allow savings from the welfare bill to offset a proposed tax cut, increased funds for child care, a requirement that states have provisions to suspend driver's licenses and other licenses from those persons delinquent in child support payments, and restrictions on use of cash welfare funds for medical services including abortions.

The Democrats, in the meantime, stood solidly behind an alternative bill crafted by Nathan Deal of Georgia and other moderate to conservative democrats. This bill, HR 1267, offered as a substitute for HR 4, had a number of similar provisions, including time limits, work requirements and restricted eligibility for immigrants. It would also have increased spending on education, job training, employment services, and day care to facilitate recipients' participation in the Work First program. A major difference was retention of entitlement status for cash welfare and other programs. It would also have maintained control of welfare programs at the federal level. It was defeated 205-228 largely on a party line vote.

The Republican welfare proposal also had opponents among the ranks of Senate Democrats, and passage through the Senate was considerably more difficult than passage through the House. In the end, the Senate, expected to be a moderating influence on the legislation, passed

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legislation that incorporated most of the key provisions of the House bill, including transforming AFDC into a block grant. The proposed legislation initially went to the three committees of jurisdiction, and the reported bills from these committees were then combined into one bill. The Finance Committee, which had jurisdiction over most areas of welfare reform, on May 26 approved a draft welfare bill written by Chairman Bob Packwood of Oregon and subsequently presented as a substitute for HR 4. Like the House bill, the measure would have ended the entitlement to cash welfare, allowed states to determine eligibility and introduced block grant funding. Time limits were similar to those contained in the House bill. This bill did not require states to deny benefits to immigrants and children of unwed minors or those already on welfare. Instead it gave states the option to do so. Suspension of licenses for those delinquent in child support was also rendered optional. However, states were required to guarantee child care to welfare recipients who had children younger than six and who were obliged to participate in work or training activities.

The Labor and Human Resources Committee supported a bill (S 850) which basically maintained the status quo for child care, reauthorizing the 1990 Child Care and Development block grant and incorporating additional programs. The bill was passed with bipartisan support.

The Agriculture, Nutrition and Forestry Committee endorsed a bill (S 904) to cut food stamp spending, give states more control, and require work. All but one committee Democrat opposed this bill.

While all of these bills had been reported out of committee by the end of May, it took several more months before a Senate welfare reform bill was brought to the floor. The delay was largely caused by serious intraparty disputes, primarily about formulas for distribution of block grant funds and the absence of provisions for reducing illegitimacy. Conservative and Southerners were among the most prominent critics of the bill's failure to adequately address

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illegitimacy, arguing that this "allowed the states to subsidize children born out of wedlock, which perpetuates poverty."[2] No such ideological sentiments underlay the funding issues. States had huge sums of money at stake dependent on the formula used to allocate the lump sum block grant allocation among them. At the heart of the dispute was whether states would receive an amount tied to their traditional spending on the programs -- in which case states providing higher benefits would stand to gain in comparison to poorer southern states, for example, or whether the formula would be based on demographics such as the number of poor children or the growth of population.

A further fly in the ointment appeared when Senator Packwood became the subject of an Ethics Committee investigation which ultimately caused his resignation. Senator Dole had stepped in by this time, and he presented a bill (S 1120) based on the initial three bills but with revisions to attract broader party support from conservative and moderates. Funding was based on traditional spending but an additional sum was allocated to states with high population growth and low welfare benefits to appease Senators from the south and west. To appease conservatives, States were given an option to deny benefits to children of minors or those already on welfare. These provisions proved inadequate: after bringing the bill to the floor on August 7, and listening to a day and a half of opening speeches, Dole pulled the bill, which had been offered as an amendment to the House bill, HR 4. This delay made it more likely that parts of the bill would be incorporated into the budget legislation in the fall so that Republicans could count the welfare savings as a contribution towards deficit reduction.

The Democratic leadership in the Senate, in the meantime, had introduced an alternative bill (S 1117) on June 8, which retained the federal guarantee of cash aid for the poor, but made it

[2] Statement of Senator Faircloth of North Carolina, quoted in 1995 CQ Almanac, pp. 7-47.

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conditional on a recipient working or taking active steps to find work. It included additional funding for welfare to work activities and job training and search.

The Senate took up the Republican sponsored bill again in September. After voting down two alternative Democratic welfare bills, including the Senate minority leadership bill (S 1117) and a bill by Senator Moynihan, the Senate held two weeks of floor debate. During this period Senate Republican moderates joined with Democrats to chip away at some of the more conservative provisions of the bill that Dole had crafted. In the final proposal, welfare recipients were exempt from work if they had children under age 5 and could not obtain the necessary child care. States had the option of denying benefits to unwed minor mothers and children of those already on welfare. States were required to maintain welfare spending of at least 80% of 1994 levels for 5 years, and child care funds were increased. With these amendments, the Senate passed a revised version of HR 4 on September 19, six months after the House had passed its bill. As the vote neared final passage, Dole declared: "We are closing the books on a six-decade-long story of a system that may have been well intentioned but . . . failed the American taxpayer and failed those who it was designed to serve" (CQ Almanac 1995, pp.7-48). Paul Wellstone (D-Minn), the only one of the bills' opponents seeking reelection in 1996, said that children would suffer if it was enacted. "They do not have a lobbyist. They do not have the PACs. They are not the heavy hitters," he said (Ibid.).

The bill went to conference in late October. Democrats were virtually excluded, with Republicans meting out differences among themselves. By this time welfare reform was moving on two tracks: major elements of the reform, including those that involved budgetary savings, were incorporated into the budget reconciliation bill (H.R. 2491) at the same time as House and Senate conferees were working on a final version of HR 4. HR 2491 was vetoed by the President on December 7, 1995.

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Among the primary areas of dispute between House and Senate was the House proposal to change funding for five major groups of programs to block grants. In addition to cash welfare, these included: child protection; child care; school lunch and breakfast, and the nutrition program for pregnant women and young children (WIC). Denying benefits to the children of unwed minor mothers or those already on welfare were also contentious issues. Senate moderates generally wanted only two block grants -- cash welfare and child care, they wanted to give states more choice on eligibility decisions, increase child care funds and ensure states did not make major cuts in welfare spending. Joining with Senate Democrats, Senate Republicans succeeded in achieving significant compromises. Despite strong opposition from both the administration and a significant number of congressional Democrats, Congress passed the conference agreement on H.R. 4 in December, 1995. In the bill that came out of committee, block grants were limited to cash welfare and child care and some child protection programs, and states had the option to deny benefits to children of minors and those already on welfare. States were required to maintain funding at 75% of their 1994 levels on AFDC and related programs.

The conference agreement on H.R. 4 contained several elements that differed substantially from the original bill. A major innovation was the compulsory replacement of AFDC and JOBS (which were based on federal-state matching funds) by a fixed block grant to the states for a program entitled Temporary Assistance to Needy Families (TANF). This was a state option in the original bill. Benefits were conditional on work after two years, but under the terms of the conference agreement, states themselves had more latitude to define what constituted work activities, and they were obliged to enroll only 4% rather than the proposed 8% of families in work or work activities. Both versions maintained the lifetime limit on welfare benefits of five years. States, which had always had wide latitude in setting benefit levels, were also given more discretion over eligibility rules, such as limits on resources or income. The actual levels of block

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grants were based on funds the states received in FY1994, FY1995 or an average of FY1992-4, whichever was greater. Since caseloads were declining from an all-time high in March 1994, the states stood to gain millions of additional federal dollars under TANF compared to what they had received under AFDC.

Most of the provisions agreed upon by the conference committee working on the free standing welfare bill had been incorporated into the budget reconciliation bill which was vetoed by the President on December 6. One provision that had remained highly divisive was whether states should be given control over child nutrition programs by funding them with block grants. The chairman of the House Economic and Educational Opportunities Committee wanted to give states this control, while the Senate Agricultural Committee Chairman was adamant that child nutrition programs such as school lunches should remain under federal control. The final compromise allowed seven states to be funded with block grants. Other last minute changes increased funding and reduced spending cuts for several programs. The House adopted the conference report on December 21, and the Senate the following day. As promised, it was vetoed on January 9, 1996, by President Clinton, who found it "tough on children and weak on work" (Burke, 1996).

Within a month after the Presidential veto, the National Governors' Association voted unanimously to propose modifications to H.R. 4, including more federal funds for child care, and grants to states with high unemployment. These proposals addressed the issues of the bill being "tough on children and weak on work." A new version of the bill, introduced in May 1996, the Kasich Budget Reconciliation/Welfare Reform Bill (HR 3734), was introduced June 27, 1996. This legislation moved through the House and Senate with amazing speed, perhaps due in large part to the desire of Members to return to their districts to campaign in an election year. (And the

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fact that caseloads had been declining for almost two years, and if they continued to do so and the block grants were tied to a readjusted level, the governors would lose substantial funds.)

The bill passed the House only three weeks after it was introduced on July 18, 1996 by a vote of 256-170.

The bill was received in the Senate on July 18 and read twice. It took only 5 days for the bill to pass in this chamber. On July 23, the Senate passed H.R. 3734 by a vote of 74 to 24, with one Republican and 23 Democrats voting against the measure.

Following a motion on July 24 that the House disagree with the Senate amendment, the Bill was sent to conference on July 25. A conference report was filed in the House on July 30, and the House agreed to the conference report by 328-121 on July 31, while the Senate did likewise by a vote of 78-21 on August 1. The bill was presented to the President on August 19, 1996, and signed by him on August 22, to become Public Law No: 104-193.

This new document, like the original H.R. 4 and the Clinton Bill, required work after two years of benefits and a lifetime limit of five years of assistance. A major difference between the two was the replacement of matching funds and entitlement status of AFDC by capped block grants. This had the effect of ending entitlement to cash welfare for the first time in decades.

The changes which had been wrought in the welfare system of America were brought about by a combination of economic factors, ideological and political motivations, and the activities of interest groups. Traditional theories of public finance which hold that government intervention arises in response to an externality or public good problem, such as (in the case of welfare) the inability of local communities to deal with large numbers of poor, justifies government intervention on the grounds that transactions costs render these activities too costly for the private sector, and thus they would be underprovided or not provided at all. In the early years of welfare relief this may indeed have been the case. However, as the preceding account of

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the development of welfare policies and programs suggests, the forces that currently shape government policies are far more complicated than a simple desire for the common good. The process is, to a large extent, the result of the interplay of numerous complex and often conflicting interests. The next chapter attempts to shed some light on the objectives and interactions of those individuals and institutions involved in the policy making process and present an analysis of the effects of interest group activities on the American welfare system.

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CHAPTER 6

INSTITUTIONAL ANALYSIS

I. Theoretical Overview

In the early chapters of this dissertation two alternative theories of government were discussed. The more traditional economic theory of welfare economics argues that government exists to correct an economic problem such as an externality or the existence of a public good which the private market would not or could not address. This theory holds that Government activity in such a context provides a mechanism for moving the economy to a Pareto superior position, and, in equilibrium, a Pareto optimal situation is achieved. Certain assumptions are clearly implicit in this analysis, including both the assumption that government has all the requisite information to design appropriate policies and programs and that the political will exists to use the power of government for this objective.

The alternative theory of government which has been presented in this paper evolves from the field of public choice. In contrast to the normative public welfare perspective, this view takes a positive approach, and directly addresses the institutional context of governmental activity. Applying the standard assumption of economic theory as applied to the private sector, that rational individuals pursue their own self-interest, the theory can be used to explain or predict the effect of such behavior on a particular outcome in the public sector. Thus, in the case of welfare, the legislative outcome would be predicted to be a result of the inputs of self-interested

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individuals acting either individually or, more often, in the context of a particular interest group and constrained by the institutional context of the legislative process.

This research was undertaken to examine the validity of these two theories and specifically their usefulness in explaining government welfare policy. The focus of the analysis has been the major federal cash welfare program in the United States, formerly known as Aid to Families With Dependent Children (AFDC), and since 1996 renamed Temporary Assistance to Needy Families (TANF). The program provides cash welfare to families and children with income and assets below a certain threshold (and fulfilling certain other requirements). The 1996 New Welfare Law described in the previous chapter transformed this program in a manner unknown in its 30-year history. A close examination of this legislation, and particularly the legislative process that gave birth to it, serves to highlight the usefulness of the two theories being examined.

In order to assess the validity of alternative theories it is necessary to compare the outcomes that would be predicted by each theory. This in turn requires an assessment of the objectives sought from the legislation. We turn first to the traditional welfare economics.

The classical welfare economic theory posits that Government intervention in the welfare arena may be justified and explained by a number of factors -- all generally related to the disutility of poverty in society. This disutility may arise from several sources, including the purely economic -- such as the underutilization of human capital when people are not gainfully employed, altruistic sources such as the desire to improve the lot of others, or simply discomfort at observing poverty in the society. According to this line of argument the primary objective of Government policy would be the elimination of poverty and putting people to work. In fact, the stated goal of both the Clinton Administration and the Republican leaders of the Congress emphasized getting people off welfare and into the workforce rather than reducing the numbers in

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poverty. A further major source of disutility, particularly for Congressional Republicans, was the belief that federal funds spent on welfare programs represented a misallocation of resources since such programs were ineffective in reducing poverty, and according to some analysts, actually worsened the situation by creating an underclass that led to the perpetuation of poverty.

Traditional economic welfare theory would predict that Government would remedy the disutilities outlined above, and bring the economy closer to a Pareto optimal equilibrium. The implicit assumptions are that sufficient information is available to the government and that it has the capacity and will to implement an effective solution. While the plethora of research from all ideological perspectives renders the first assumption more or less plausible, there are many who would claim that the government by its very nature has limited capacity to effectively implement welfare programs (and that the mechanisms it uses to do so in fact exacerbate the problem).

The second theory that we are examining is that of public choice. In contrast to the first, the emphasis here is on the individuals and institutions involved in the process, as well as on the outcomes of the legislation. Assuming rational self-interest, the objectives of each agent, individual or institution, may differ and may conflict. Rather than some societal good, the ultimate outcome of the process will depend on the objectives of the agents involved and the balance of power among them. According to Mancur Olson's theory of interest groups, smaller groups and those that can offer specific benefits to members are likely to be relatively more effective in achieving their goals than are larger groups with free rider problems. When this theory is applied to the legislative arena, the successful groups can be defined as those that succeed in obtaining legislation that furthers, directly or indirectly, their specific ends -- whether ideological, political, or pecuniary.

In order to elucidate what outcomes would be predicted by public choice theory in the case of government welfare policies, it is necessary to examine in more detail the nature of the

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principal agencies and individuals involved. For simplicity, we group them into three categories: the ideological, the political and the pecuniary. Clearly there are overlaps; those whose goals are primarily political, such as reelection, may obtain success by pursuing a particular ideological goal to which supporters are sympathetic, for example. Moreover, those that we define as primarily ideological may stand to reap pecuniary rewards from policies that reflect their ideology.

The political group consists of the President and Members of Congress who, it is assumed, are primarily interested in getting reelected, increasing the party majority, or in the case of the President, personal legacy. Clearly, gains to one political agent or agency may or may not be at the expense of the others.

The pecuniary group includes those who stand to gain from reallocation of federal welfare funds or the allocation of additional funds, including DHSS, State Governments, non-profit and private sector welfare service providers, members of the business community and welfare recipients. Admittedly the water is somewhat murky here in the sense that State Governors, for example, would like to increase the flow of funds going to their state in order to enhance their own political status. The pecuniary motive precedes the political, however. Similarly with DHSS officials, many of whom undoubtedly have an ideological commitment.

The ideological group we define as those whose primary motivation is employing the legislative process to promote an ideological rather than purely economic outcome. This group includes two very different categories. On the one hand are the faith organizations, liberal think tanks and others who are committed to the belief that the Government has a moral responsibility to guarantee a minimum set of benefits for the poor. At the other end of the philosophical spectrum are those conservative groups whose emphasis is on personal responsibility rather than Government responsibility, such as the Christian Coalition and the Heritage Foundation, and who

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strongly believe that moral values, and particularly illegitimacy, should be at the center of any welfare reform legislation.

The following section examines the specific goals of selected institutions in each of these categories, and the ways in which they strove to achieve these goals by participating in the legislative process that resulted in the new welfare law, P. L. 104-193.

II. Selected Institutions that Influenced the Legislative Process of Welfare Reform

A. Political Interests

1. The Presidency

The story of the new welfare law is full of ironies, not least of which is the transformation of the President's welfare reform proposal into a piece of legislation designed largely by the most conservative Republican Members of Congress and Governors and reflecting the values of some of the country's most conservative interest groups. Clinton's original proposal, made during his campaign, focused on work, but also on expanding education and job training and providing public sector employment for those unable to find private sector jobs. It would have increased federal expenditures. The Republican bill that was finally passed cut expenditures, emphasized work or work activities such as job search and, most radically, ended the entitlement of individuals to welfare. In order to understand how the legislative process transformed welfare reform it is necessary to look briefly at the internal workings of the Clinton campaign and presidency.

When Bill Clinton was pledging to reform the welfare system he was sending a politically popular message to the voters. It was a message that had different meaning for different audiences, however. The fine print of campaign documents such as "Putting People First" revealed that the Clinton team meant giving more assistance to welfare recipients looking for work, not less (Clinton Campaign Economic Plan, Little Rock, Arkansas, 1992). Some of the

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Clinton rhetoric insisting that, "If you can go to work, you ought to go to work" gave a different impression, however, and voters in general felt that too much money was spent on welfare, that the system was abused by many welfare recipients, and that there should be stricter work requirements (Stephanopoulos, 1999). This ambiguity allowed the Congress to transform the meaning of welfare reform.

The ability of the President to advance his welfare agenda was severely damaged by three circumstances: a continuing series of internal scandals and external crises, internal disarray among his advisors, and the huge budget deficits and sluggish economy that he inherited.

The scandals began during the 1992 campaign with the Gennifer Flowers stories and the draft dodging revelations. Problems continued during the transition, with several Clinton nominees facing problems, and Zoe Baird forced to resign when, it was learned she had hired illegal immigrant household help and had not paid social security tax. The litany continued as the new administration took over; in May 1993 the firing of White House travel office personnel and replacement by a Clinton cousin caused a furor in the press, surpassed in July by the suicide of White House Counsel Vincent Foster which led ultimately to the fateful Whitewater investigations. Five months later the Paula Jones story broke and in February 1994 at the annual convention of the Conservative Political Action Committee she publicly accused Clinton of sexual harassment (See Woodward, 1994, and Stephanopoulos, 1999, for fuller discussion of these events).

By Summer of 1994, the Republicans in Congress were having a field day, mounting rapid fire attacks on the administration and holding numerous public hearings on Whitewater which drew constant media attention and served to distract senior administration staff from working on legislative issues. While the House Republican leadership had assigned committee members and their staff to focus on developing welfare reform legislation and enlisted a great

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deal of help from the nations Governors in doing so, the White House staff was preoccupied with damage control activities, and was itself hampered by internal conflicts and disarray.

The disarray was first evident in the transition during which there was no central authority, the President was working on his cabinet selections and "a lot of people were doing a lot of separate work" (Woodward, p.80). On the first Monday of the first full week in the White House, a column in *Time* carried a challenge from a 'top administration official' to Senator Daniel Patrick Moynihan, chairman of the powerful Senate Finance Committee. "He's not one of us, . . . We'll roll right over him if we have to" (Stephanopoulos, p.121). Moynihan's committee was responsible for all the major programs on the Clinton agenda -- health care, welfare and the budget. In that same week, the President's statements on gays in the military caused a showdown with the Joint Chiefs of Staff, and 3 people were killed in a shooting at the CIA. This was not an auspicious start for the new administration, but it was to be a precursor of much of the same.

Further disarray resulted from conflict between the political advisors, who had worked on the Clinton campaign and were focused on carrying out the agenda, and his economic advisors, who were concerned about the budgetary impacts of campaign pledges. Clinton had promised during his campaign to have an economic recovery plan within the first 100 days of his Presidency. In preparation for this he met with Federal Reserve chairman Alan Greenspan in Little Rock on Dec. 3, 1992 (Woodward, 1994). (The following account is from Woodward). During this encounter Greenspan made the case for giving the highest priority to reducing the deficit. He argued that long-term interest rates were an unusually high 3 to 4 percent higher than short term rates because bondholders and traders felt that the budget deficit would continue to soar, and history had shown that high inflation would result. The gap in the rates represented an inflation premium, Greenspan explained, and could only be eradicated by changing market expectations regarding inflation, which meant that Clinton needed a credible economic plan for

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reducing the deficit. Lower long-term rates would in turn lead to expanded business investment and consumer spending thus leading to economic growth. Further, it would encourage a switch from bonds to stocks thus also helping the stock market.

Although an economic plan had been promised in the first 100 days, the first official meeting was not held until January 7, 1993. Over the following weeks, as it became clear that it would not be possible to pass a middle class tax cut, increase investments and cut the deficit, arguments increased between the economic team, mainly deficit hawks, and the political advisors concerned about political fallout. In the meantime, what many people in the White House did not know was that Treasury Secretary Lloyd Bentson had also met with Greenspan and together they had agreed that a deficit reduction of $140 billion would be required to be credible in the bond market. It was Lloyd Bentson who first suggested dropping welfare reform in order to achieve $3 billion in saving towards the $140 billion target (Woodward, 1996). Budget Director Leon Panetta, and National Economic Council Director Robert Rubin supported Bentson, and Clinton, much to the dismay of Labor Secretary Robert Reich, George Stephanopoulos, James Carville and the political advisors, finally agreed to drop welfare reform at a meeting on Saturday, February 13, 1993 (Ibid.). Clinton was said to have remarked a few weeks later that Senator Moynihan was very angry that welfare reform was dropped out of the budget, "and he's right" (Woodward, p.165).

Clinton did eventually pass a deficit reduction budget, which scraped through the House after months of threats, promises, carefully crafted compromises and "absurdly trivial deals" such as a promise to play golf with the President (Stephanopoulos, 1999, p. 179). Similar efforts were required to get through the Senate, and it was only when Senator Moynihan's wife, Liz, used her powers of persuasion on her friend intransigent Senator Bob Kerrey, that passage was achieved in that chamber on August 6, 1993 (Woodward, 1996).

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Even after the passage of the budget, which had occupied until the fall of 1993, the dissent continued. In the fall, the economic team wanted NAFTA to have priority, Hillary Clinton wanted to focus on Health Care, and Gore wanted to reinvent government. (Stephanopoulos, 1999). As the internal disarray continued, economic growth soared in the last quarter of 1993 to an annual rate of 7 percent. Fearing inflationary tendencies, Greenspan made a series of short-term rate hikes between February and April. By May Clinton's poll numbers were plummeting, the legislative agenda was floundering and Clinton felt he was a prisoner of Congress (Stephanopoulos, 1999). In that same month Kentucky's second district elected a Republican congressman for the first time since 1865, after campaign adds identified the democratic candidate with Bill Clinton.

When Congress adjourned in August 1994 without voting on health care, it was effectively killed. Clinton had failed to deliver on his campaign promises of a middle class tax cut, welfare reform or health care. His major accomplishment, cutting the deficits won few votes. And the persistent scandals as well as perceived flip-flops on issues ranging from gays in the military to policy on Haitian refugees led to widespread voter dissatisfaction which was reflected in the landslide Republican victories in the mid term elections.

In November 1994, not a single Republican incumbent running for Governor, House or Senate lost. Republicans took control of the House for the first time since 1954, won a majority of governorships for the first time since 1970 and took control of the Senate. Seeing the writing on the wall for 1996, Clinton called in Dick Morris, a political consultant who had advised him in earlier campaigns and who knew how to win but "wasn't scrupulous about how he did it or whom he did it for . . . His other clients were Republicans and his attack adds were the roughest in the business" (Stephanopoulos, p. 332). His strategy for Clinton to win in 1996 was to "neutralize" the Republicans and "triangulate" the Democrats (Ibid, p.334). "Neutralizing" the Republicans

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meant passing a good deal of their proposed legislation, including a balanced budget, tax cuts and welfare reform, to relieve the frustrations that led to their election and push them further to the right on issues such as gun control and abortion rights. Triangulation meant picking a point also distanced from the liberal Democrats who were now out of favor, thus favoring a centrist position -- the famous median voter position. Dick's cardinal rule, according to George Stephanopoulos, was that if 60% of Americans were for it, the President had to be for it (1999).

The arrival of Morris in the White House only added to the disarray. "From December 1994 through August 1996, Leon Panetta managed the official White House staff, the Joint Chiefs commanded the military, the cabinet administered the Government, but no single person more influenced the President of the United States than Dick Morris" (Stephanopoulos, p.329). By Spring of 1995, the whole White House had become dysfunctional, according to Stephanopoulos, and rumors were rife that Morris was feeding inside information from the White House to his most prominent former client, Republican Senate Majority Leader Trent Lott (p.339). Leon Panetta called Morris "a spy in our midst" (Ibid., p.386).

Under the direction of Morris, President Clinton started to implement the new legislative strategy of neutralization and triangulation. In 1995 neither OMB nor the Congressional Budget Office analysts realized that the economy would grow so fast in the following years, and given their economic assumptions it was clear that to balance the budget would require major cuts in programs that affected a broad slice of the population. Clinton's budget proposal had extended deficit reduction but was not close to balance. The idea was to force the Republicans to specify cuts that they would make to balance the budget. The Republicans had indeed proposed deeper cuts and Congressional Democrats were attacking these cuts with some success. Morris wanted Clinton to offer a more detailed proposal and a balanced budget. According to Stephanopoulos, "It wasn't enough for the president to balance the budget; Dick wanted to make our friends howl.

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He insisted, for example, that the President contrast his plan to the 'Congressional' rather than the 'Republican' budgets; and his draft praised the civility of Speaker Gingrich -- acid words to our allies who had been campaigning against the Republican budgets" (p. 358). The President complied on June 13, 1995. Not surprisingly the Democrats were hurt, angry and confused. Not surprisingly some questioned whose side Morris was on.

The war in the Balkans and the bombing of Sarajevo slowed down the budget process over the summer, but Morris kept strategizing, and in August proposed a major ad campaign against the Republicans attacking their Medicare cuts. As a side benefit Morris would get a healthy commission for every dollar they spent on television (Stephanopoulos, 1999). Morris felt that such ads combined with his behind the scenes negotiations with Trent Lott would lead to a deal. He didn't count on the strength of the freshman Republicans. Neither did he count on increasing press scrutiny as his role became more evident. Starting in late October a series of articles in the press revealed the shadowy side of his past, and particularly the racist ads that he had been behind in previous campaigns. As Morris was losing power, the Republicans were faced with intransigent freshman and a Speaker who was increasingly unpopular, not least of all when he complained that he would not compromise on the budget because he felt he had been snubbed by the president on a trip to Prime Minister Rabin's funeral (Ibid., p.404). President Clinton, meanwhile was taking a strong and popular position in defense of Medicare, refusing to sign Republican legislation which cut the program. When the impasse ultimately led to two successive government shutdowns, most Americans put the blame squarely on the Republicans. Clinton was able to veto a Republican budget bill (which included welfare reform) and a separate welfare reform bill with little fear of negative consequences in the polls.

The situation was different six months later. Clinton was facing reelection in three months and was vulnerable to Republican attacks that he had failed to deliver on campaign

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promises. When the Republicans sent him a third welfare reform bill he faced a difficult choice. He had been opposed to ending the welfare entitlement and to a number of provisions such as cutting aid to legal immigrants and cutting food stamps, but another veto could hurt him in the polls. If the bill passed he would have kept his campaign pledge to reform the welfare system.

Leon Panetta, Robert Rubin, Laura Tyson, Robert Reich, George Stephanopoulos and other major administration officials urged a veto. Bruce Reed, the domestic policy advisor who had worked on welfare policy since 1992, felt that the bill contained much of what Clinton had originally proposed and although the food stamp and legal immigrant cuts needed to be fixed, there probably would not be a chance to get a better bill from the Republican Congress. Dick Morris urged Clinton to sign. He claimed that his polls showed a Clinton veto would transform a projected 15 point November win into a 3 point loss. Clinton signed the welfare bill.

2. The Congress

While Clinton had opened the door to welfare reform, it was the Republicans and not the Democrats in Congress who enthusiastically took up the issue. When they swept into power in 1994, the newly energized Republican members brought with them a determination to pass the 10 bills that constituted the Contract with America. The third bill, the Personal Responsibility Act was to be the basis of welfare reform. The Republicans at this time had a popular mandate, a majority in both Houses, and opinion polls showing widespread dissatisfaction with the existing welfare system, expanding welfare rolls and budgets, and an overall huge budget deficit, all of which contributed to a strong momentum for passage of welfare reform legislation.

Republican leaders in the House sought out the help of the Governors almost immediately after their 1994 landslide election. (See below for fuller discussion of these meetings.) At the urging of Haley Barbour, Newt Gingrich and Bob Dole met with the RGA, laid out their agendas for welfare and Medicaid and requested their help saying they had neither the

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staff nor the understanding of the programs that the Governors had. Other motivations may also have been involved, however. According to political scientist Elizabeth Drew, Bob Dole wanted the endorsement and campaign machinery of the Governors for his upcoming 1996 Presidential bid and Barbour felt the Governors could help sell the Republican message to the country (Drew, 1996).

One of the most contentious issues arising out of the proposed Republican legislation was the idea of funding a number of welfare programs, including AFDC, by giving block grants to the states. Under existing federal regulations for AFDC, certain categories of individuals were entitled to cash benefits, the levels of which varied widely and were determined by the States. Funding for the program was shared by the states and the federal government which gave matching funds to the states to cover benefits and administrative costs. Thus if the rolls went up, or benefit payments increased, both state and federal funding would increase. The idea of capping the federal contribution by funding the program with a fixed federal block grant (states were, of course, still free to spend their own funds as they wished) gained prominence in late 1994 in discussions between Trent Lott, Newt Gingrich and the Republican Governors.

Initially a broad range of federally funded programs was going to be block granted, including food stamps, child care, child welfare, AFDC, Medicaid, school meals programs, nutrition for women, infants and children (WIC) and the JOBS program. This carte blanche transfer of funds to the states with few federal regulations regarding implementation of the programs provided fodder for the House Democrats who were quick to point out the possible consequences of transferring billions of dollars to the states with no strings attached. A strong message from Leon Panetta indicating that the administration was opposed to these block grants, re-enforced the criticisms of congressional Democrats.

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To shore up support, the Republicans were obliged to make concessions both to their supporters, including the Governors and conservative Christians, as well as to Democrats such as Congressman Tony Hall. Congressman Hall lobbied his fellow Democrats to oppose block grants for school lunches and child nutrition programs, and held a press conference at which he displayed a ten foot aluminum plate, knife and fork, and argued that children would go hungry if the legislation passed. This effort generated a groundswell of support from angry parents and teachers who successfully lobbied against it. A similar effort to defeat the food stamp block grant was supported by private sector interests such as the agricultural and grocers lobbies. There were neither middle class nor private sector interests who could be called upon to lobby against the cash welfare block grant, however.

Congressional Democrats were, however, not in a very strong position. It was difficult to defend a welfare program that almost everyone believed was seriously flawed. At a time when budget deficits were still high, any bill that increased funding for welfare was clearly not politically feasible, and cutting welfare benefits would alienate some major democratic constituencies. Moreover, practically speaking the Republicans in the House were operating largely behind closed doors and proposed Democratic reform bills, such as the Deal bill, were never seriously considered by the Republican majority who clearly stood to gain from passing their own legislation. An additional difficulty for the Democrats was the ambiguous position of some of their potential allies, including Democratic Governors and the White House. The National Governor's Association, which included both Democratic and Republican Governors, was supportive of the Republican legislation, with the result that a Member opposing the legislation might find himself opposed to the Governor of his state. Finally, it was unclear what position would be taken by the White House, which had sacrificed their own welfare reform proposal to the budget deficit.

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While the Republican party suffered setbacks resulting from public disillusionment with Newt Gingrich and the shutting down of the Government in 1995 due to failure to pass appropriations bills, the Republican leaders were able to maintain pressure for passage of welfare reform legislation. By the time the bill arrived on the desk of the President virtually the only active opponents were the poverty groups (discussed further below) and some Democratic Congressmen.

When the bill was brought to the Senate it faced opposition from Senator Moynihan and a group of Senators who were adamantly opposed to any bill that ended entitlements (Smith, p. 177). Not all democratic Senators were opposed, however. Further, many Democratic governors believed that the political impetus for a welfare bill was so great that it was inevitable that such legislation would pass and the best strategy would be to attempt to influence the process as much as possible (Ibid.). Governors Chiles, Romer, Carper and Dean worked with the Senate Democrats to educate them on the technicalities of the programs and advise on legislation. The battle over entitlements was thus replaced in the Senate by a battle over funding, and specifically the formula that Governors Engler and Thompson had used to calculate the block grants. These two Governors chose as the basis of calculation an average of the amounts states spent on AFDC between 1992 and 1994, or the amount spent in 1994. Only Michigan and Wisconsin would gain from the first formula. Even given a choice, other states would receive a cut in benefits while Engler and Thompson's states received an increase. Governor Chiles, who had served as chair of the budget Committee while serving in the Senate was well aware of the implications and came to the attack, focusing on the implications for states with high population growths, and thus enlisting their support. This tack proved effective in the Senate because the Governors could talk states rather than districts, and the audience was 100 rather than 435. After a great deal of acrimonious debate, Senator Dole announced a revised funding formula on July 31, 1995 (CQ Weekly Report

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5. Aug 1995, p.2371). In the meantime slowing the process had opened the door to other interest groups and Dole, on reintroducing the bill in September had added looser immigrant requirements, exemptions from work for mothers of children under one, maintenance of effort regulations for the states and an additional contingency fund for the states. In mid September, an additional $3 billion for child care was added and $1 billion state contingency funds to "break a deadlock and ensure the support of moderate Republicans and some Democrats" (NGA, cited in Smith, p. 183).

The bill which was passed by the Senate differed in some notable ways from the House passed bill. The House bill, reflecting the influence of Robert Rector and the religious right, required the states to implement family caps and deny federal funding to unwed teen mothers. The Senate bill allowed states to opt out of these provisions. The Senate bill, reflecting the concerns of those Democrats who feared there would be a rush to the bottom in terms of cutting benefits, required the states to maintain state welfare expenditures of at least 80% of 1994 levels, while the House bill had no such provision. The Senate had fewer cuts for immigrants as a result of the influence of Governor Chiles as described above. Finally, the Senate bill had work participation rates of 25% in 1996 and 50% in 2000, while the House had only required 10% in 1996 and 50% by 2003. Both bills had a five-year lifetime limit on benefits and a two year on benefits without work.

After some compromises in the conference committee, the welfare bill, which was initially attached to a budget bill, was vetoed by Clinton. A stand alone bill was subsequently passed which allowed states to choose 1994, 1995 or an average of 1992-1995 to calculate their grants, allowed states the option of family caps and (through legislation) denying benefits to unwed teen mothers, allocated $800 million for states with high population growth and 1.7 billion

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for contingency funds, set a participation standard of 50% by 2000 and maintenance of effort at 75% of 1994 levels. This bill too was vetoed by Clinton on Jan 9, 1996.

At the NGA meeting in February the Governors took up the issue of welfare reform again and Democratic Governor Carper and Republican Thompson agreed to work together to craft a compromise bill. The proposal that emerged contained an additional $4 billion for child care and an additional $1 billion for the contingency fund, made the family cap a state option, and allowed the states to exempt up to 20% of their caseload from the five year requirement as a hardship limit. This bill, together with a Medicaid policy, was unanimously adopted by the Governors. Although many Governors were unhappy with the welfare bill, the need to pass a Medicaid bill which would allow them to control Medicaid expenditures was of paramount importance to them.

When brought to the House the proposal was attacked by some conservative interests represented by Robert Rector of the Heritage Foundation and subsequently some changes were made including adding $50 million per year for abstinence education programs, and reducing benefits by 25% for recipients not cooperating in establishing paternity. Most of what the Governors proposed was accepted, however, and the House passed the revised bill. The Senate passed bill had few differences, the major one being the required family cap unless states legislated to not implement it, but this was again taken out in conference under the Byrd Rule. When the Republican leaders in the House and Senate decided to split the Medicaid and Welfare reforms, in spite of opposition from Republican governors, the way was open for a Clinton signature, which was given on August 22, 1996. Governor Engler, although invited, did not attend the signing ceremony at the White House.

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B. Pecuniary Interests

1. The Nation's Governors

The Governors were in an extremely strong position and played a key role in the welfare reform legislative process. They derived their power from several sources. In the first place, they had the advantage of experience. Under the multitude of waivers granted to the states to experiment with alternative welfare regulations, the states had been implementing a wide variety of welfare reforms since the time of the Nixon administration. Many of these waivers had provisions such as time limits and work requirements that bore similarities to the proposed welfare legislation. In implementing these waivers many states had gained substantial expertise and had increased their capacity for implementing the provisions of welfare reform. Moreover, a number of states had done so within the limitations of balancing their budgets. Republican leaders in Congress would be relying on these Governors both for political support of the law and effective implementation of it since, as the 1988 welfare legislation had shown, laws on the books meant little if the Governors were not enrolled in the process.

Of even greater significance was the ability of the Governors to help craft the legislation. They were able to provide a level of expertise on the intricacies of the legislation and implementation of the programs which was lacking for most Members of Congress and their staffs. The Republicans wished to push the legislation through as quickly as possible, and to do so were dependent on the expertise of the Governors.

Finally, the Republican ideology of devolution required Governors to take a greater role in policy implementation. The landslide victory of Republicans in the Congress was mirrored somewhat in the states, where a majority of Republican Governors were elected, clearly making devolution a particularly attractive prospect at this time. The Republicans now had the opportunity to shape a Republican welfare reform plan which would be implemented largely by

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Republican Governors, and which would define welfare policy for years to come. (To what extent this also served the Republican agenda by transferring power away from the bureaucracies, such as the Department of Health and Human Services, and particularly a Democratically controlled bureaucracy, is not clear.)

The role of the Republican Governors in influencing the final outcome of the welfare legislation can hardly be overestimated. At the Republican Governors Annual Conference in November 1994 (two and a half weeks after the election) a group of House and Senate leaders, including Bob Dole, Newt Gingrich and budget committee chair John Kasich, came to meet with the Governors and made a commitment to work more closely with them on crafting and implementing budget cuts [1]. The two sides had a common enemy -- the Administration, particularly the Department of Health and Social Services. The Governors and Congressmen agreed to reconvene in January 1995.

Central to the collaboration on the welfare legislation were Governor Thompson of Wisconsin, Governor Engler of Michigan, and Governor Leavitt of Utah. These three Governors negotiated out a lot of details for the States, and the director of the Social Services Department in Wisconsin, Jerry Miller, was responsible for drafting significant parts of the proposed legislation[2]. Governor Thompson had implemented a number of welfare reform provisions in Wisconsin under federal waivers and was well positioned to know what worked and to negotiate terms beneficial for the states.

On January 6, 1995, a key group of Republican governors came to Washington, DC, and presented their proposed legislation to House and Senate Republican leaders. A major element of

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[1] Personal interview with Mary Kay Mantho, member of Governor Thompson's staff.
[2] Personal interview with Leeann Reddick, member of Governor Engler's staff.

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the proposed legislation was an agreement by the States to accept fixed funding for five years in return for flexibility in implementing their programs and eliminating the requirement to have DHHS authorize any changes they wished to make in their welfare programs. The governors proposed instituting seven or eight block grants with no strings attached. The only requirement would be certain objectives fulfilled: the Governors would have total discretion over implementation. Probably the most important outcome of this meeting was the directive from House and Senate leadership to committee chairs instructing them to have the Governor's staff sit side by side with them in drafting the welfare legislation. This power conferred to the Governors reflected the confidence felt by Newt Gingrich, Clay Shaw, Senator Packwood and others in the ability of the states to implement reform in line with Republican ideals.

Working steadily in the Spring of 1995, Governors Thompson, Engler, and others crafted legislation incorporating the end of entitlements and the introduction of no strings block grants. While they had the support of House and Senate Republican leaders, however, they did not have the support of another influential group of Republicans. The conservative wing of the party, and influential conservative groups felt that the Governors were too liberal and that certain mandates should be included in the legislation. Thus Robert Rector of the Heritage foundation wanted illegitimacy provisions. Congressman Talent wanted to tighten work requirements and limit job search time. John Ashcroft wanted drug testing. All of these were opposed by governors, but compromises had to be made, and some were dropped and some left as a state option.

A further area of conflict related to the number of block grants, and this conflict was among the Governors themselves as much as between them and other groups. In the January 1996 NGA annual winter meetings there were reportedly more closed door sessions than ever before. The Association finally came up with a proposal that linked Medicaid and Welfare Reform, reflecting the importance they attached to Medicaid, which was growing faster than welfare, took

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about 20% of many state budgets and was riddled with federal requirements. Strong opposition from health interest groups made passage of a block grant for Medicaid highly improbable, however. With Clinton and many Republicans running for reelection, a political decision was made in July 1996 to decouple Medicaid from the welfare legislation and block grant only the latter.

One area where Governors were notably unsuccessful was the deposition of unspent funds. These funds, known as rainy day funds, are deposited in the Federal Treasury, rather than in the States. This issue was to become the subject of considerable animosity when Congress, seeing large unspent sums sitting around, proposed to take back a certain percentage of these funds. Since states are required under the legislation to use their own funds before drawing down federal monies, and since they are also obliged to spend 75% to 80% of their historic funding on welfare programs, it is difficult for some states to efficiently allocate these large federal sums. The threat of Congress to recoup the funds clearly sets up an incentive for the states to ensure that they are spent, and thus to some extent confounds the legislative goal of reducing tax dollars spent on welfare programs.

2. The National Governor's Association (NGA)

The National Association of Governors traces its roots to 1908 when President Theodore Roosevelt invited the nation's governors to the White House to ask them to lobby their state legislators to support a bill that had stalled in Congress (Smith, 1998, p.113). While the organization originally focused primarily on intrastate activities, it started to include federal issues in the 1930s. It was not until 1975, however, that it established an office in Washington D.C. It currently devotes about a third of its resources to federal issues. About 35 states have separate state offices in Washington, DC, and the larger states work outside the aegis of the NGA in lobbying activities for their states.

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The NGA is composed of an Executive committee and three standing committees: Human Resources, Natural Resources and Economic Development and Commerce. Any policy proposal is initially considered by these committees which must approve them by a two-thirds vote. They are then voted on by all the Governors, and if approved by two thirds adopted as official NGA policy. Policies automatically expire after two years (Smith, 1998, p.111).

While the Governors were wooed when they had something to sell, after it was acquired they were to a large extent discarded. Though actively involved in the crafting of the legislation, two of NGA's main goals – block grants for Medicaid and maintenance of direct control over unspent TANF funds – were not achieved. Moreover, to appease the Christian conservatives, several mandates on such issues as illegitimacy were incorporated into the welfare legislation. And when in 1997 the Republican governors asked to meet regularly with congressional leaders Senate majority leader Trent Lott reportedly told them that "he hates to have meetings just to have meetings" (Smith, 1989, p.125).

3. The American Public Human Services Association (APHSA)

The American Public Human Services Association (APHSA), founded in 1930, is a bipartisan, nonprofit organization, representing all of the state human services departments as well as local agencies and individuals concerned with social welfare policies. According to the 1998 Annual Report of the Association, its mission is to develop, promote, and implement public human service policies that improve the health and well-being of families, children and adults.

The bipartisan nature of this group, and the central role it would be required to play in implementation of welfare reform virtually assured this group some voice in the proceedings. It did not turn out to be a very effective voice, however. APHSA managed to keep a foot in both camps of the Congress, passing a resolution in 1994, that laid out changes they felt would be effective if the entitlement status of welfare was maintained and those that would be required if

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the entitlement status was ended. The organization did not endorse welfare legislation, and, in fact, opposed lifetime time limits and many of the restrictions on eligibility for food stamps and SSI, including most restrictions for non-citizens.

The involvement of APHSA in influencing the final legislation was facilitated in large part by its close connections with state Governors. The president of APHSA, Gerald Miller, was also the Commissioner of Human Services for Michigan Governor Engler, one of the two or three leading Republican Governors responsible for crafting a great deal of the final welfare legislation. Drafts of legislation drawn up by the Human Services Subcommittee of the Ways and Means Committee could be sent out through APHSA to the Democratic and Republican members of APHSA in the states. These members could then relay feedback to their members, further tightening the bonds between the Congress and the state governments.

4. Chamber of Commerce

The U.S. Chamber of Commerce represents 215,000 businesses in the United States, 3,000 state and local chambers of commerce, 1,200 trade and professional associations and 72 American Chambers of commerce overseas (Josten, 1995). It was rated by Fortune magazine as the sixth most politically influential organization in the U.S. in 1999 and, according to a CNN report, pledged to spend "at least $5 million to (elect pro-business candidates to) Congress" in the 2000 elections (CNN.com, Oct. 26, 1999). Clearly, it has weighty political clout. Holding round table discussions with members and their staffs, inviting Members of Congress to speak at Chamber events and granting awards to members who have been supportive of business interests, the organization is a very visible presence on Capitol Hill and its leaders are on a first name basis with a number of influential Republican congressmen.[3] Moreover the Chamber publication, "How They Voted", which evaluates the support or opposition of each senator and representative

[3] See the Chamber publication '1996 How They Voted' for illustration of this point.

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by tabulating floor votes on issues important to the business community puts members on notice that their every vote will be published and distributed widely to business and other interests.

The Chamber was a strong a proponent of welfare reform. In an August 1995 letter to members of the Senate it noted that a survey of its members revealed that welfare reform was the second highest priority (after unfunded mandates) on a list of 64 issues. (It did not state the sample size or what percentage of those receiving the survey were sufficiently interested in the issue to respond.)

The major reason was employment. Since the early 1990s businesses had been reporting to the Chamber that the shortage of labor, not capital or technology, was a major problem. The Chamber believed that a reformed welfare system was "a transitional system leading to work" (1996 How They Voted, p. 8). Clearly, welfare reform could potentially result in the formation of a vast pool of cheap laborers who would be compelled to work or face destitution.

Businesses had a clear stake in the imposition of strict time limits and work requirements, and wanted to be involved in the legislative process. In a January 1995 letter to key House and Senate committees, Bruce Josten, a Senior Vice President of the Membership Policy Group of the Chamber, noted that the Chamber was "anxious to work with members of Congress and to lead the fight for business to reform welfare in 1995" and expressed the hope that Congress would call on Chamber officials "to assist (their) efforts by way of testimony, briefings and grassroots support." In a further letter to members of the Senate in August 1995, Josten expressed the belief that it was "essential that business be involved in the design, development and operation of any changes in America's welfare system." This correspondence also noted the Chamber's strong support for time limits and work requirements.

Time limits and work requirements were, predictably, widely supported by businesses. In a June 1995 poll the Chamber reported that of over 6,000 respondents, 75% felt that the 5-year

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lifetime limit on benefits was too long and that welfare recipients should be forced to work within a shorter period. A requirement that able-bodied food stamp recipients between the ages of 18 and 50 be required to work or be in training within 90 days or lose benefits was supported by 69% of respondents, while 29% said it was not tough enough. In a similar vein, denying benefits to legal immigrants was generally supported and providing tax credits for businesses that hired welfare recipients were strongly supported. These last two issues are reflected as priorities in the Chamber's 1999-2000 National Business Agenda which supports legislation increasing the number of employer sponsored visas for both high tech and low skilled immigrants, and advocates extension of business tax credits such as the Work Opportunity Tax Credit, available to businesses that hire members of targeted groups including welfare recipients (U.S. Chamber of Commerce, 1999). The Agenda does not specify why, given the extreme shortage of labor in the U.S, it is necessary to give businesses tax breaks for hiring available employees.

The impetus of business interests to increase the labor supply was perhaps most clearly summed up by Richard Lesher, President of the U.S. Chamber of Commerce, in a March 1995 article entitled, "The Welfare Trap" (Lesher, 1995). Lesher stressed the need to move people off welfare and into the work force, help business fund on-the-job learning by providing "a window of flexibility in which the usual litany of employment regulations and potential liability is lifted," and have a "hardnosed commitment to impose a deadly serious cutoff for benefits, without appeal or bureaucratic runaround." He concluded that this was a difficult thing to do "but we must -- if we really care about people" (Lesher, 1995).

5. Public Sector Welfare Service Providers

The American Federation of State, County and Municipal Employees (AFSCME), like the NGA and APHSA, represents state interests, but with one crucial difference; it represents the *employees* of the NGA and APHSA, which gives it a quite different perspective and very

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different issues of concern. In the discussions and negotiations which preceded passage of the new welfare legislation AFSCME was aligned more with the poverty groups than with the state interests, worked in coalition with the various poverty groups such as the Children's Development Fund (CDF) and Catholic Charities, and had monthly meetings throughout 1994 and 1995 with the Coalition on Human Needs.

This organization shared with the poverty groups an opposition to block grants and to time limits and other aspects of the law which they felt were too punitive, but one of their greatest concerns was that welfare to work legislation would result in displacement of the employees they represented as states tried to find jobs for welfare recipients. Under workfare regulations, a welfare client can be put to work with a private or public employer and works off their welfare benefit, rather than getting wages. Clearly, there are pecuniary advantages to an employer who replaces wage workers with welfare recipients. While it is difficult to prove that this has in fact occurred, AFSCME has several cases under investigation and currently has litigation pending against the State of New York for engaging in unfair labor practices. A further concern was that states would not remunerate welfare recipients at the minimum wage, as Department of Labor guidelines stipulated. This concern proved well founded when Governor Wilson refused to enforce these guidelines in California.

6. Private Sector Providers

Under the new welfare law, private contractors can be hired not only to provide services such as child care programs, but also to actually administer certain aspects of the law. The legislation has provided a bonanza to several contractors, most notable among whom are Lockheed Martin Corporation, more widely known as a defense contractor, and Maximus, a firm which has been granted substantial contracts to carry out evaluations of the new welfare law.

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Firms such as Lockheed Martin can take advantage of the subsidized labor of welfare recipients in their own company, as well as the $2,000 fee they are paid to place each recipient in a job.

Established in 1975 by Dr. David Mastran, Maximus has over 3200 employees providing management services to Health and Human Services Departments of State and local governments. The company went public in 1997 and is listed on the New York Stock Exchange. After focusing mainly on child support enforcement programs in its early years, in recent years the company has broadly diversified. It now offers technical assistance in a range of areas including managed care enrollment, waiver applications, welfare to work programs, referral and monitoring of drug addicts and alcoholics receiving SSI and DI, and information technology services for federal, state and local governments.

In addition to program assistance, the company provides revenue maximization services to state and local governments, and notes among its achievements that it has "helped our clients to obtain nearly $1 billion in federal funding for systems efforts" (Company brochure). Moreover, according to the 1998 Annual report, "the states have received more than $350 million in additional federal revenue as a result of the Company's efforts and expect current projects to yield another $300 million in new federal revenue" (p. 8). Clearly the relationship is mutually beneficial to both the Company and the states.

As outsourcing of government functions has proliferated, Maximus has flourished. Its growth in the past 5 years has been remarkable. In FY1994 the company had revenues of a little over $50 million, a figure which increased 600% by FY1999, when revenues exceeded $300 million. During the same period net income increased from $2.1 million to $14.4 million. Thus, while it took the company 23 years to attain a level of profitability of $2 million, in the following five years it increased profits sevenfold to $14.4 million.

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In addition to ballooning profits, Maximus made several strategic acquisitions in 1998. These included David M. Griffith and Associates, which provides consulting services in cost accounting, wage and compensation evaluation, and executive recruiting, Spectrum consulting, which focuses on system planning, Carrera consulting, a software company, and Phoenix Planning and Evaluation, specializing in electronic commerce. These acquisitions increased the number of the Company's professional consultants from approximately 120 to over 600. The advantages to Maximus include not only more diversified and experienced consultants, but also "valuable relationships with members of the executive and legislative branches of state and local governments" (Maximus annual report, 1999, p. 3).

Relying entirely on government contracts for its revenue, Maximus places great emphasis on establishing relationships with past and present local and state government officials. The 1999 Annual report notes that "since state and local government administrators are subject to changing legislative and political mandates, the company has developed strong relationships with experienced political consultants who inform and advise the company with respect to strategic marketing opportunities and legislative initiatives" (p. 4). Its growth strategy includes recruiting top government management professionals and middle level consultants with a "network of political contacts . . . to leverage the company's . . . client relationships" (Ibid., p. 4).

Focusing on government contracts shows promise of being an increasingly lucrative endeavor. The 1998 Annual Report states that:

> The Company believes that providing program management and consulting services to government agencies represents a significant market opportunity. Federal state and local government agencies in the United States spend more than $250 billion annually on the health and human services programs to which the company markets its services, including Medicaid, Food Stamps, Temporary Assistance to Needy Families, Child Support Enforcement, Supplemental Security Income, General Assistance, Child Care and Child Welfare. The state operated programs alone cost an estimated $21.0 billion annually to administer. (p. 1)

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In addition to these programs, the report notes other areas of opportunity, including the Balanced Budget Act of 1997 which established new programs, including the Children's Health Initiative Program (CHIP) which provided $20 billion in federal matching grants to states, and in June 1998, the Clinton administration mandate of extended eligibility for Medicare. The expansion of programs in times of budget surpluses means more opportunities for private companies such as Maximus. The corollary does not hold, however. In bad economic times the number of beneficiaries of such programs grows which also means increasing business for the company. As the report notes, "the Company believes that state and local governments will continue to seek its services despite the effects of economic cycles on government budgets" (p. 2).

In order to capitalize on these opportunities, the company takes a proactive approach. While it follows the traditional approach of obtaining contracts by responding to government requests for proposals (RFP), whenever possible, prior to the issuance of an RFP, it dispatches senior executives "to work with senior government representatives such as a state's governor, members of the governor's staff, and the heads of health and human services agencies to encourage them to outsource certain health and human service functions" (p. 9). Moreover, "to identify opportunities to work with government officials at early stages and to optimize the government's receptivity to the company's proposal to provide program management services, the company establishes and maintains relationships with elected officials, political appointees and government employees. The company engages market consultants, including lobbyists to establish and maintain relationships with these client representatives. The company's consultants and lobbyists provide introductions to government personnel and provide information to the company regarding the status of legislative and executive decision making" (Ibid.). Clearly, the

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modus operandi of interaction between the private sector and the public sector differs little whether the issue is utility regulation or welfare recipients.

C. Ideological Interests

1. Poverty Groups

a. The Children's Defense Fund

The Children's Defense Fund (CDF) is a private nonprofit organization established in 1973 by Marion Wright Edelman. The stated goal of the organization is "to provide a strong and effective voice for all the children of America, who cannot vote, lobby, or speak out for themselves" (Children's Defense Fund Annual Report, 1998, p.1). Supported by foundation and Corporate grants, and individual donations, the Fund has assets of about $50 million. It does not accept government funds. CDF undertakes research and analysis on issues relating to children's welfare and engages in advocacy and program development at the state, local and national level.

The CDF was strongly opposed to the welfare reform proposals of both the Clinton administration and the Republican led Congress. They engaged in advocacy at all levels of government, from direct lobbying of administration officials to grassroots efforts encouraging their state and local affiliates, including local service providers and church groups, to lobby their Congressional Representatives.

The success of their efforts was limited by a number of factors. Internally, many of the organization's resources were devoted to the battle against the Balanced Budget Constitutional Amendment which was seen as a larger threat to the goals of CDF than was welfare reform. With a limited budget and limited staff time, welfare concerns became secondary.

Externally, opportunities for providing input to the debate were severely restricted. According to a CDF staff member, the opportunity for minority members of a committee to select

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witnesses to give testimony at hearings was sharply curtailed.[4] (The observation that members of liberal interest groups were generally given little or no voice by the Republican-led Congress, was confirmed by a representative of one of the larger groups involved in the process, who noted that requests to Republican staffers for meetings were routinely disregarded[5]). And, as mentioned earlier, the Democrats were excluded from many of the welfare reform negotiations. The frustration felt by the liberal organizations such as CDF, the Institute for Research on Poverty (IRP), and other such groups was reflected in a statement by a former director of the IRP who complained that this Congress was immune to research. He cited an analysis of 76 leading researchers, both liberal and conservative, showing that welfare programs were not among the primary reasons for rising out-of-wedlock births as many Republicans asserted (CBPP, 1995). The contrary view was espoused by conservative organizations such as the Heritage Foundation, whose director, Robert Rector, worked closely with Congressional Republicans.

b. Church Based Groups -- Network and Catholic Charities USA

The mission statement of Network describes the institution as a Catholic Social Justice lobby whose goal is to educate, lobby and organize to influence federal legislation to promote economic and social justice. Founded in 1971, the organization has a membership of about 10,000, and an annual operating budget of about $800,000. Like other ideologically based groups, Network, while not opposed to welfare reform itself was strongly opposed to ending the entitlement status of AFDC. This group engaged in extensive grassroots campaigning as well as collaborating with other groups on media campaigns and lobbying the administration and the Congress. A major constraint on their efforts, according to officials of the organization, was restricted access of lobbyists and an inability to plead their case.

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[4] Personal interview with Arloc Sherman.

[5] Telephone interview with Sharon Daly, formerly of CDF and currently with Catholic Social Services.

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Other church based organizations were more successful. The politically weighty Catholic Charities USA presented testimony to several House and Senate committees in 1995 and 1996. According to the testimony of its president, Rev. Fred Kammer, S.J. before the Senate Labor Committee in March 1996, Catholic Charities is a national association of 1,400 independent local Catholic Charities agencies with a combined budget of $1.9 billion in 1994. The agencies comprise 234,000 staff members and volunteers, and in 1994 served 11 million people of diverse religious and ethnic backgrounds. Services provided range from homeless shelters to adoption and psychological counseling.

Although its voice was heard, however, the organization had limited success in achieving its goals. The major goal of maintaining AFDC as an entitlement was not obtained. It was more successful in removing the obligatory requirement that states implement a family cap and deny payments to unwed mothers under 18. These provisions were left as state options in the final legislation. The success in these areas was in part attributable to collaboration with conservative groups such as the national Right to Life organization and some Congressional Republicans who felt that cutting off benefits for children born to unwed teen mothers or mothers already on welfare would lead to increased abortions. State governors also objected to the provisions being obligatory and fought for them to be eliminated or left as a state option.

Two other areas in which Catholic Charities was successful -- dropping the block grant for food stamps and Medicaid -- were also achieved in collaboration with other groups. The food industry, as well as anti-hunger groups such as Bread for the World, opposed block granting food programs, fearing that such funds would go into general state funds and not necessarily be used for food. There was also much stronger popular support for food programs, especially for children, and members such as Rep. Tony Hall took a very strong stand against these block grants. Medical providers had similar fears that block grants would go into general state coffers

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rather than being dedicated to the purchase of the goods and services they provided, and such institutions lobbied strongly against the Medicaid block grant. Thus, although Catholic Charities, with its huge budget and its position as representative of a large Catholic vote, had access to influential Republican lawmakers, it is not at all clear what, if any, influence on the final outcome this organization would have been able to achieve without the collaboration of other powerful pecuniary and ideological interests.

c. The National Urban League

Founded in 1910, the National Urban League (NUL) is a social service and civil rights organization whose stated mission is to help African Americans attain social and economic equality. With an annual budget of about $35 million, and headquarters in New York, the NUL operates at the national, state and local levels, engaging in advocacy, research, policy analysis, and provision of social services. The NUL has affiliates in 115 cities in 34 states and the District of Columbia.

While this organization was extremely active in the legislative activities that preceded the 1988 Family Support Act, working with a Democratic Congress, like other groups with similar goals, it was largely sidelined in the proceedings that led to the 1996 welfare reform. Giving Congressional testimony only once prior to the 1996 legislation, the NUL was rarely called upon to advise the Republican members and their staffs that dominated the legislative process.

Several of the liberal organizations opposing the welfare reform legislation, and particularly the ending of entitlement status, expressed frustration that their ability to influence the process was severely constrained not only by a tightly controlled Republican Congress, but also by the fact that both the Democratic party and the President were moving toward the center. These groups had paid little attention to the Republicans when the Congress was controlled by the Democrats and were thus easily relegated to non-players by the Republicans. This miscalculation

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on the part of the poverty groups was compounded by their miscalculation of the possibility that Clinton would actually sign the welfare reform law, although this latter was an easier mistake to make, given his apparent indecisiveness, even up to the last minute.

2. Conservative Ideological Interests

At the other end of the ideological spectrum from the anti-poverty groups are the conservative groups such as the Heritage Foundation, the Christian Coalition, the Family Research Council, the Coalition for Traditional Values and Empower America. Led primarily by Robert Rector of the Heritage Foundation, these groups were primarily interested in raising the issue of moral values, and influencing the legislative process to produce a bill that would reflect their values and what they believed should be the values of others.

a. The Christian Coalition

The Christian Coalition (CC) was founded in 1989 by Pat Robertson. Ordained a Baptist minister in 1960, Robertson started a television station in Norfolk, Virginia in 1961 and subsequently built a business empire that includes the Christian Broadcasting Network, (CBN), a commercial cable television channel, a relief agency, Regent University, and other business, ministry and educational ventures. The objective of CC is to make government more responsive to "the concerns of evangelical Christians and pro-family Catholics by activities such as providing information on pending legislation, providing training on social and political action, lobbying local state and national leaders and speaking out through the media" (Watson, 1997, pp. 52-53).

Robertson gained national prominence in 1988 when he sought the Republican nomination for the presidency. His ambitions were broad. A campaign official claimed that "this campaign is not a one-shot attempt to win one office, though that is the focal point of our efforts. It is designed to start a permanent restructuring of American politics, especially Republican

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politics. There are a lot of folks out there who want to reclaim control over their lives and their government. And we're determined to help them succeed" (Watson, p. 42). Although he lost, his campaign served to establish a foothold for the Religious Right in state party committees throughout the country and marked an increasing degree of political sophistication in the movement.

Robertson used his campaign's mailing list of donors and activists to solicit help in starting up the CC which was designed to be a new grassroots political organization. He hired Ralph Reed, who had worked on the Reagan presidential campaign, and the Jesse Helms reelection campaign, to be executive director of the CC. Reed was able to obtain a donation of $64,000 from the Republican Senatorial Committee as seed money for the new organization (Isikoff, 1992, A14).

The CC has headquarters in Virginia with a network of state affiliates and local chapters. It grew from a membership of 25,000 in 1990 to an estimated 1.9 million when Reed resigned in 1997 (Reed, 1997). The organization uses its three publications, television channel and Internet site to get its message out, inform members of current issues of importance to the pro family movement, and offer guidance on what local members can do to move public policy. Guests on the television program have included Bob Dole, Newt Gingrich and William Bennett. In the first six months of 1996, a crucial time for welfare reform, the CC reportedly spent $5.9 million on lobbying activities (Watson, p. 66). At the grass roots level, it holds seminars on political activism, including voter registration drives in member churches, establishing telephone trees and lobbying of legislators and distributes voter guides. The voter guides compare candidates positions on selected issues and are distributed on the last Sunday before an election, giving candidates little time to refute any issue. CC claimed it distributed 46.3 million voter guides in more than 100,000 churches nationwide just prior to the 1996 election.

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Reed supported the Republican Contract with America, although it did not address some of the major issues of concern to CC. He explained that his objective was "to win a big victory on the Contract With America, thereby building up political capital that we (can) later spend on social issues" (Watson, p. 73). On May 17, 1995 the CC published their own issues agenda "Contract with the American Family," which was developed through focus groups and polls, even hiring the same pollster, Frank Luntz, who worked with Gingrich on the Republican Contract. In comparison with earlier manifestos this avoided many radical positions and Reed was accused of political expediency by other Christian Right leaders. Martin Mawyer of the Christian Action Network complained that the CC was "so locked into Republican politics, they are continually forced to redefine themselves based on the current political climate and who's in charge of the Republican party" (Ibid).

After the Republican landslide of 1994, Reed was credited with delivering the evangelical vote to the Republicans, and the CC's annual conference in September 1995 was attended by all the Republican presidential candidates except the pro choice Pete Wilson and Arlan Specter (Wilson, p. 81). In early 1995 Reed claimed the 1994 elections were important because "they gave people of faith what they have always sought: a place at the table, a sense of legitimacy, and a voice in the conversation that we call democracy. We have become a permanent fixture on the American political landscape, too large, too significant and too diverse to be ignored by either major party" (Wilson, p. 163).

The honeymoon was short lived, however. After helping Dole to gain the nomination, the CC and other religious conservatives were treated as outsiders at the 1996 Republican National Convention, there was a notable absence of religious conservative speaking from the podium, and although their views were incorporated into the party platform, Dole made it clear he did not feel

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bound by that document. Despite delivering millions of voter guides, the CC was not able to deliver the election for Dole.

In addition to problems with the Republicans, rifts were present between the different groups which constituted the Religious Right. Reed had alienated some of these with his Contract With the American Family, which they felt was a sellout, and he further alienated other Christian Right organizations by not appearing with their representatives at a press conference organized by the Buchanan campaign in May 1996 to denounce attempts to change the abortion plank of the Republican platform.

In negotiations with the Congress on the new welfare law, the self appointed leader of the Christian right groups was not one of their leaders but Robert Rector, a senior policy analyst at the Heritage Foundation, a conservative Washington think tank. Rector had worked on welfare policies for several decades and had long advocated a pro family position, similar to that shared by the majority of the Christian right. He used his close ties to the Republican Congress to insert this agenda into the legislative process

b. The Heritage Foundation

The Heritage Foundation, played a central role in the development of the 1996 welfare legislation. A key player in the proceedings was Robert Rector, Senior Policy Analyst in Welfare and Policy issues, who had been interested in welfare policy for over two decades, and was highly critical of the 1988 legislation which he felt was a smokescreen basically intended to preserve the status quo. In late 1993 Senators Faircloth and Talent approached Rector for advice on crafting welfare reform legislation. This collaboration resulted in the Real Welfare Act of 1994, a piece of legislation that reflected Rector's primary concerns: controlling aggregate welfare spending; ending entitlements and establishing block grant funding; requiring work provisions, and, most importantly to Rector, focusing on illegitimacy as a cause of many social ills. In the Talent-

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Faircloth legislation work requirements were very strong, reflecting, as Rector noted, that such requirements have a 92% public approval rating. Although Rector's most acute concern was illegitimacy, he knew that the public in general was far less overwhelming in their support for illegitimacy provisions in welfare legislation, and strong work requirements were more likely to win popular support[6]. A substantial part of the Talent Faircloth bill was subsequently incorporated into the Contract With America, including the illegitimacy provision, work requirements, limits on aggregate welfare spending and removal of entitlements and block granting of a number of welfare programs.

One of the major battles that arose among conservatives pitted Robert Rector against the Governors, and particularly Governor Engler who was strongly opposed to the illegitimacy provisions in the welfare legislation. In the winter of 1994 Rector met with Engler in a Washington Hotel room, explaining to him that the family cap and the provision regarding unwed teenage mothers did not necessarily limit State control since States could circumvent them by funding benefits for such recipients with State money.

From the point of view of Rector and other social conservatives, the main objective was to symbolically raise the issue of illegitimacy in order to generate public attention for what they felt was a phenomenon destroying the society and creating an underclass. Whether or not the States actually implemented the provisions was not of primary concern. Rector believed that legislation would be the vehicle to generate debate about illegitimacy, and was proud of the fact that by December 1994 liberals such as Eleanor Holmes Norton, the Democratic Congressional delegate representing Washington, DC, were expressing public concern about the social effects of the collapse of marriage. He attributes this attention on the part of liberals to his longstanding efforts to publicize the issue as well as the efforts of Charles Murray, who in the fall of 1993

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[6] Personal interview with Robert Rector.

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published a very influential article in the Wall Street Journal on the rapid rise of white illegitimacy and what he perceived as the development of a white underclass (Murray, 1993).

In this article, Murray drew attention to the fact that the overall illegitimacy rate in the U. S. in 1991 was about 30%, four points higher than the black illegitimacy rate in the early 60s which had motivated Senator Moynihan to write about the breakdown of the black family. Murray claimed that "the new trend that threatens the U.S. is white illegitimacy," and he referred to the development of a white underclass (Ibid.). By casting illegitimacy as a white as well as a black problem, the taboo felt by some against speaking aloud on the issue was removed. There was no longer the same danger of being cast as racist by talking about an underclass, and the social evils that resulted from illegitimacy. The Murray article was important not only because it facilitated a more open debate, but also because it publicized the issue of illegitimacy, especially white illegitimacy, more widely, and indirectly contributed to the belief that the welfare system not only was not working, but that it may be contributing to the development of the white underclass and accompanying major social upheavals.

The issue of illegitimacy was a very divisive one in the Senate. A number of interest groups including the Christian Coalition, Empower America, the Family Research Council, the Traditional Values Coalition, and the Heritage Foundation weighed in strongly and continuously from the summer of 1994 to passage of the final bill in August 1996. On the other side were the Governors, including Governor Engler, who were strongly opposed to incorporating illegitimacy provisions in the welfare legislation. Ultimately a compromise was worked out in which the language was included, but there was no requirement for states to pay any attention. The state had the option of giving benefits to children of unwed teens and children born to a mother already on the welfare rolls. The states kept control over their program rules: the anti-illegitimacy interest groups had successfully raised the issue at the highest levels of national debate.

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A further area of contention between Rector and the Governors was that of work provisions, including the percentage reductions in caseloads that states would be required to make, and the exemptions permitted for mothers of young children or other categories. While the Governors wanted minimal mandates, Senators Faircloth and Talent, as well as Rector wanted very stringent requirements and incentives to force the States to drastically cut the welfare rolls and put recipients to work.

c. Empower America

In contrast to the Christian Coalition, which could mobilize huge voter turnouts, and the Heritage Foundation, which had become a very influential Conservative think tank, Empower America was a relatively small and unknown entity. Founded in 1993 by Former HUD Secretary Jack Kemp, former Education Secretary William Bennet (who was, and still is, also a John Olin fellow at the Heritage Foundation), former Congressman Vin Webber, and Ambassador Jeanne Kirkpatrick, this group used its inside influence to affect the course of welfare legislation. With Malcolm S. Forbes, Jr. as its Chairman, and Congressman Newt Gingrich and Senator Trent Lott on its Board of Directors, access to Congressional decision-makers was not a problem.

The Founders of Empower America, particularly William Bennett and Jack Kemp held press conferences, gave testimony at congressional hearings and wrote press articles to promote their views. A major objective of the group was to throw its weight behind the Talent-Faircloth bill, rather than the more moderate bill cosponsored by Finance Committee chairman Bob Packwood, and supported by other members of the Senate Republican leadership and Senate Democrats.

The pressure to move the legislation to the right was founded on both ideological principals and political astuteness. In a memorandum to Congressional Republicans, dated April 13, 1994, Bennett, Kemp and Weber urged House Republicans to "fashion a bold, principled, and

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fundamentally different alternative to the current House Republican bill." They advocated a "comprehensive welfare approach" based on 12 principles, of which the first 4 related to work. Noting that "Economic institutions are some of society's most important mediating structures, creating hope as well as values," the authors suggested that meaningful reform should include policies to promote job creation with pro-growth, asset-based, entrepreneurial strategies. In addition they advocated incentives to take and hold entry-level jobs, including tax exemptions for low income working families, and work requirements for able-bodied welfare recipients, the nature of which should be at the discretion of the state. Other principals proposed in the memorandum ranged from capping overall welfare spending, to easing restrictions on adoption and limiting welfare payment to women who have children out of wedlock.

The memorandum went on to note that welfare reform also represented a political opportunity:

> This is a moment when good public policy is also good politics. Republicans must begin by preventing the President from packaging status quo policies as major reform. This can only be accomplished by sharpening policy differences, not blurring them with tepid legislative compromises.
>
> The President finds himself in a political bind. He can maintain his liberal political coalition, essential for this health care plan, by proposing liberal welfare policies. If he goes down this path, however, he will (a) betray his campaign promise to "end welfare as we know it," (b) shatter once and for all the myth that Bill Clinton is a "new Democrat," and (c) reveal his true political ideology.
>
> Or, the President can risk fracturing his liberal political alliance by adopting a marginally more conservative approach -- one that does not go far enough to reform welfare, but one that does go far enough to offend his allies on the left. For a sneak preview one need only consider the angry response from the Children's Defense Fund in response to the Clinton task force.
>
> We do not believe it is the duty of House Republicans to rescue Bill Clinton from problems of his own making.[7]

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[7] Memorandum from Empower America Co-Directors William Bennett, Jack Kemp and Vin Weber to Congressional Republicans on the subject of the House Republican Welfare Bill, dated April 13, 1994.

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Thus, as William Bennett noted in a Washington Times article in August 1995, Clinton could sign the Republican legislation, alienating many of his supporters and giving the Republicans a policy victory, or he could veto it, reneging on his promise, "perpetuating the status quo," and giving Republicans "a political, if not a policy, victory" (Bennett and Wehner, 1995).

III. The Influence of Institutions on the Legislative Process

The preceding description of the institutional context within which the welfare legislation was produced sheds light on the validity of the alternative theories with which we have been dealing. Both the legislative process and the legislative outcome of P.L. 104-193 cast doubt on the validity of traditional welfare economic theory. Given the powerful influence of some of the institutions discussed above, and their integral involvement in the legislative process, it would be difficult indeed to accept that the legislation produced by the processes described in this and the preceding chapter was a product designed to move the economy to a better place, unbiased and untrammelled by the activities of the various individuals and groups involved. This is not to deny, however, that certain outcomes of the legislation may be Pareto superior. An increased number of welfare recipients in the work force, for example, would *ceteris paribus* tend to make both the former recipient and the economy in general, better off. The point is, however, whether this is a direct objective and outcome of the legislative process or a side effect resulting from the political market activities of the interests concerned in the process. It is important to note in this context that the issue of poverty, presumably a major disutility to be dealt with by any national welfare policy, was notable for its absence. While anti-poverty and church groups attempted to engage in the process, they were, for the most part excluded (except for those with political clout such as Catholic Social Services) and had minimal voice or effect on the legislation ultimately passed.

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The degree to which the outcome (as opposed to the process) of the legislation supports the traditional economic welfare theory is discussed more in the following chapter.

The alternative public choice theory would predict an outcome to the legislative process that reflects the relative bargaining power of the institutions involved, acting within specific institutional constraints. It would predict a high level of involvement by interest groups that would be motivated by the pursuit of individual self-interest rather than a notion of the common good, such as elimination of poverty. In this context, the political market place is a forum in which legislation is traded and those individuals, groups or coalitions of groups willing and able to pay the highest price are those who are successful in obtaining the product.

In the framework outlined above, legislation is an intermediate product that provides different final goods to different agents. These final goods we have classified as political, ideological or pecuniary. It is important to point out that the inclusion of ideology renders this framework different from that generally used by public choice theorists, who ascribe pecuniary or political motivations to most transactions in the political market place. In the case of the welfare legislation under consideration, ideology held center stage in the marketplace.

We turn now to assess what outcomes would be predicted for the different categories of groups by a public choice model. In the marketplace for legislation, the Congress and the President have to negotiate to produce a legislative product that will garner for each of them the highest price. If we assume what is being sought by these two entities is the political objective of reelection, then votes are the ultimate price that must be delivered, either directly from members and affiliates of a particular group, or indirectly through the use of funds, publicity or other resources a group can provide.

The potential purchasers of the legislation, the pecuniary and the ideological groups, will be more or less successful depending on their ability to deliver probable success at the polls to the

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primary sellers of the legislation, in the case under discussion the Republican Congress and the Democratic President. Whether the potential buyer of the legislation seeks pecuniary or ideological goals is irrelevant; what is traded is legislation in exchange for political support.

On the supply side, it is clear that the end product will be the result of trade-offs between the legislative and executive, particularly where the two are from opposing parties. A Democratic President can shore up support from his core constituents by providing them with legislation supported by Democratic interest groups and democratic voters at large. To the extent that he can attract Republican support without losing this base he can maximize his support by moving to the right. The corollary is true for the Republican Congress. In this we agree with the basic tenet of the median voter theorem. An important variable not addressed by this theorem, though, is the importance of the initial political strength of the political entity. Thus, where the entity is initially in a very strong position, as was the case with the Republican Congress in 1994, there is little necessity to trade. With a strong popular mandate, extra votes were of little marginal value and Congressional Republicans could reward their supporters with little need to make concessions to fringe supporters. President Clinton had far less security and thus more incentives to compromise in hopes of regaining some centrist voters. Given this balance of power, in which Congressional Republicans had a good deal of monopsony power, a legislative product more amenable to conservative Republicans than liberal Democrats is precisely what public choice theory would predict, and precisely what, in fact, materialized.

On the demand side of the market, public choice theory would predict that those groups able to pay the highest price in political support, either through the strength of their voting membership, the size of their Political Action Committees (PACS) or their influence through other channels, would be most successful in purchasing the legislation they sought.

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Among the potential buyers of welfare legislation were two opposing sets of ideological groups: the liberal pro-entitlement groups such as Network and the Children's Defense Fund, and the religious right and affiliated groups including the Christian Coalition and the Heritage Foundation. The strong influence of the Christian Coalition and other conservative groups on the 1994 election clearly showed their ability to bring out the vote and provided evidence of their strength in the political marketplace. Not only were these groups able to deliver large numbers of votes through their grassroots networks, they also had significant financial resources to offer. Moreover, the religious based groups such as the Christian Coalition and Empower America worked closely with the Heritage Foundation, which in turn has very close links with the Chamber of Commerce and the business community in general and receives substantial funding from businesses. The power of the conservative groups is reflected in the comment by a senior Republic Congressional aide that Robert Rector, a senior policy analyst at the Heritage Foundation, was "the single most important outside person (involved in crafting the legislation), including the Governors" (Smith, p.172).

While the conservative groups had both votes and finances to offer, the liberal groups were not so fortunate. Public opinion had generally become more conservative and there was less public support for the positions taken by liberal groups such as the Children's Defense Fund, Network and Catholic Charities. Moreover, many of these groups refused on principal to accept Government funds, but had far fewer affiliations with the business community, thus rendering them at a disadvantage vis-à-vis the conservative groups both in votes and in funds. While well-funded organizations such as Catholic Charities were also in this group, the very diverse political viewpoints of Catholics meant that the organization could not be relied upon to deliver a vote with the same consistency as, say, the Christian Coalition.

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While the ideological groups competed against each other to influence the legislation in favor of their ideological viewpoint, the pecuniary groups were able to take a different approach. Whereas the passage of legislation favorable to the religious right, such as cutting off benefits for children of unwed teen mothers, was, of necessity, a defeat for liberal groups, the various pecuniary groups could all be accommodated by simply increasing the size of the pie. This was becoming increasingly true as the federal budget was changing from deficit to surplus over the period that this legislation evolved.

Among the primary beneficiaries of the new welfare law were the States. What did the Governors gain? A central role in the crafting of the legislation which resulted initially in the elimination of most of the bureaucratic restrictions in return for accepting a fixed block grant rather than federal matching funds. With this freedom from Washington bureaucrats and regulations, the capacity of the governors to design programs more acceptable to their local constituency was enhanced, and with it their reelection prospects. While the block grant held certain risks, particularly in recessions when federal matching funds would have been increased, there was concern among governors that the federal government had been trying to improve its budgetary situation by passing the buck to the states (Smith, 1998, p.21). As one political scientist remarked in 1994, "the political viability of Congress in today's budget climate rests heavily on its ability to meet interest group demands through unfunded mandates" (Kincaid 1994, p.576). Governors feared this process might continue, and a block grant would hedge against this risk.

As it turned out, not only did they gain a great deal of control over the programs in their states, they also received vastly greater funding than they would have under the former legislation. According to Governor Leavitt, it was the Governors who, when meeting with Republican leaders in Williamsburg, first proposed block grants:

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We were sitting around a table. I don't remember exactly who said it but (a Governor) stated "we would be willing to trade a level amount of funding over the next five years if we could have the flexibility to manage (the programs)" . . . I remember John Kasich getting very excited about it, saying, "If we could do that, we could balance the budget" (Smith, 1998, p. 155).

The programs the Governors were talking about were not just the AFDC programs, however, they were also including Medicaid, which was devouring state budgets far more ferociously than was AFDC. Between 1980 and 1990, for example, Medicaid costs to states grew from $11.2 million to $31.4 million, and reached $61.9 million in 1994. During the same period AFDC grew from $6.2 million in 1980 to $9.5 million in 1990 and $11.9 million in 1994 (See table 1). The growth in Medicaid costs far outweighed the growth in the number of Medicaid recipients and the Governors felt that with greater flexibility in the programs they could provide services at significant savings to state budgets (Smith, 1998, p.157). As table 1 shows, the rate of increase in federal expenditures also provided an incentive for the Republican leaders to cap funding for the program.

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TABLE 1 – State Historical Spending on AFDC and Medicaid Programs

Fiscal Year	State AFDC Expenditures Dollars (in millions) Benefits	Administrative Costs	Medicaid Program Costs Dollars (in millions)
1970	1,443	186	2,235
1971	2,469	254	2,802
1972	2,942	241	4,074
1973	3,138	296	4,113
1974	3,300	362	4,396
1975	3,787	529	5,578
1976	4,418	527	6,332
1977	4,762	583	7,389
1978	4,890	617	8,269
1979	4,954	668	9,489
1980	5,508	729	11,231
1981	5,917	814	13,303
1982	5,934	878	14,931
1983	6,275	915	15,971
1984	6,664	822	17,508
1985	6,763	889	18,262
1986	6,996	967	19,856
1987	7,409	1,052	21,909
1988	7,538	1,159	23,654
1989	7,807	1,206	26,642
1990	8,390	1,303	31,389
1991	9,191	1,300	38,987
1992	9,988	1,342	50,339
1993	10,016	1,438	56,236
1994	10,286	1,612	61,885
1995	10,014	1,754	67,193
1996	9,613	1,796	71,585

Source: 1996 Green Book. Committee on Ways and Means, U.S. House of Representatives, Washington, D.C. 1996.

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When Medicaid was detached from welfare in order to avoid a Presidential veto of welfare reform, it was a major blow for state Governors. The Governors who took the lead on welfare reform had committed many resources to helping the Republicans formulate policies and craft legislation. They assigned senior staff to do work that Congress would normally do, including drafting bills, in response to a promise from Republican leaders that they would have influence. In this quid pro quo the expertise of the Governors would help propel the legislation to a swift passage before interest groups or opponents could intervene. But once the Governors had provided assistance in formulating the bills, and incidentally, made it unlikely that they would attack the legislation later or blame the Congress, the Republican leadership had little further need of them. Thus, it is not surprising to hear Governor Leavitt remark, when reflecting on the Williamsburg RGA meeting, "From that point forward our actual influence on the process diminished" and the product that emerged 18 months later was "substantially different" from what the Governors originally proposed (Smith, p.159).

The change was brought about to a large extent by the increasing influence of the ideologically conservative interest groups in early 1995, under the informal leadership of Robert Rector of the Heritage Foundation. Although both the Governors and the interest groups were political conservatives, the former had a vested interest in limiting federal mandates, while the latter wanted to promote behavioral changes through legislation. Robert Rector did not feel that the Governors could be relied upon to implement policies that would promote his agenda of reducing illegitimacy and strict work requirements and thus sought to force their hand through legislation (Interview, Dec. 1999). The House passed bill reflects the power of the conservative groups who won out over the Governors in many of these battles. It also represents the power of the deficit hawks who made budgetary savings by cutting off many immigrants versus the

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governors and congressmen from states such as Florida with high concentrations of immigrants (Smith, p.177).

Although the Governors may not have obtained as much control over their programs as they sought, financially they ended up getting considerably more federal dollars than they would have received under the old welfare law. This was, to some extent, in spite of the Republicans rather than because of them, however. The funding formulas were based on average caseloads from 1992 to 1994, or actual caseloads in 1994 or 1995, whichever was largest. The historic rapid rise in caseloads came to a halt in March of 1994, however, and declined significantly over the following years. In 1998, when the Congress realized just how much federal money the states had gained as a result of the block grant formulas they tried to recuperate some of these funds, causing an outcry from the Governors who complained that the block grants were an entitlement to the states and successfully blocked their removal. The era of welfare entitlements was evidently not yet over.

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CHAPTER 7

AN ECONOMETRIC ANALYSIS OF THE VARIABLES AFFECTING CHANGES IN WELFARE CASELOADS

In this chapter the comparative analysis of the public interest and public choice theories of government shifts both in focus and methodology. The focus of the previous chapter was on the legislative process and the methodology was institutional analysis. In this current chapter the focus is on legislative outcomes and the methodology will be an econometric analysis of a specific outcome -- changes in welfare caseloads.

A primary objective of those interest groups shown to have most power in the political market, and thus most influence on the legislative process of welfare legislation, was the reduction in welfare caseloads. Business interests, represented by organizations such as the Chamber of Commerce, were already feeling the effects of a tightening job market in the early 1990s, and had an interest in increasing the available supply of labor, which could be achieved by moving people from welfare to work[1,2]. The Christian conservative groups and their allies had a

[1] The strong interest of the Chamber in welfare reform is illustrated by the contents of a letter, dated January 9, 1995 from Bruce Josten, a senior vice president of the Chamber to Bill Archer, Chairman of the Committee on Ways and Means. In this letter Josten states that 'Business has a significant stake in the welfare reform issue' and 'the Chamber is prepared to help craft legislation to reform the nation's welfare system, and will play a central role in the upcoming welfare reform debate'. Seven months later, on August 7, 1995 Josten sent a letter to all members of the United States Senate noting that 'For years the Chamber has been a strong proponent of reforming the nation's welfare system. In fact, in a survey to construct the Chamber's 1995-1996 National Business Agenda, our members ranked welfare reform as the second highest prority (behind unfunded mandates) on a list of 64 issues'.

[2] It is noteworthy that a major component of welfare reform is funding for job skills training, payments to businesses to hire welfare recipients and indirect subsidization of wages by state and local subsidization of transportation to work and child care services.

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strong ideological belief in the value of work and the detrimental effect of welfare dependency and for this reason wanted people off the welfare rolls. As discussed earlier, those groups opposed to welfare reform had neither the organizational and financial resources, nor the popular support, of the reform proponents. If, indeed, the welfare legislation can be shown to have had a substantial, measurable effect of welfare caseloads when other factors such as economic growth and demographic changes are controlled for, this would add further strong support for the effectiveness of powerful interest groups and for public choice theory more generally.

It is important not to overstate the case, however. Clearly, a public interest model could have a similar outcome. The point is that the primary focus of the latter is a Pareto preferred situation in which some individuals are better off and no individuals are worse off. A reduction in the number of persons in poverty and/or increases in employment would be predicted outcomes of this model. Such outcomes might or might not be associated with a reduction in welfare caseloads. There is not clear evidence that moving from welfare to work *per se* makes individuals economically better off in the short term. Individuals who move into minimum wage jobs, losing not only welfare benefits but also Medicaid, child care and other benefits, may indeed be less well off financially, at least in the short term.[2] While an analysis that incorporated the effects of welfare legislation on these other outcomes might provide a more ideal test of the alternative theories it is clearly well beyond the scope of the present dissertation.

The first part of this chapter provides descriptive background on historical changes in welfare caseloads since the inception of the federal welfare program. This historical perspective provides a background for parts two and three of the chapter which examine existing econometric studies of the determinants of caseload, and present an alternative model which incorporates a

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[2] This ignores the deadweight costs of the existing welfare program. To the extent that such costs of the AFDC program on a per capita basis are exceeded by the new program, TANF, support is provided for the public choice rather than the public interest approach.

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longer time series and an alternative specification of explanatory variables. The fourth part of the chapter extends the analysis to examine several areas of specific interest -- the relationship between cash benefits and births to unmarried mothers, the median voter model, and the influence of special interest groups on welfare benefits. Econometric models which examine these issues, as well as a model which combines the effects of special interests and median voter interests, are specified and tested, and the implications of the results are discussed.

I. Overview of Historical Trends in Caseload Changes

The growth in the number of persons receiving cash welfare benefits is presented in Figure 10. After relatively rapid growth in the late 1960s and early 1970s, a period during which eligibility was expanded and information on the program more widely disseminated, caseloads were quite stable until the recessions of the early 1980s. A sharp upturn at this time was curtailed by the introduction of legislation in President Reagan's first term that ended eligibility for over 10 percent of the population. As states took measures to offset some of these effects, and as others were reversed by the federal government, caseloads returned to their levels prior to passage of the legislation and again remained relatively stable until 1989. The period 1989 to 1994 saw a sharp increase in the caseload, with the maximum being reached in March 1994. The reasons for this increase are not clear; a mild recession in 1990-91 would not explain the magnitude and persistence of the caseload growth. This period of rapid growth gave impetus to the welfare reform movement. From an all-time high in March 1994, the welfare caseload fell dramatically. As of June 1999, 2.5 million people were receiving welfare, lower than at any time since 1967 and a drop of almost 50% over a five year period.

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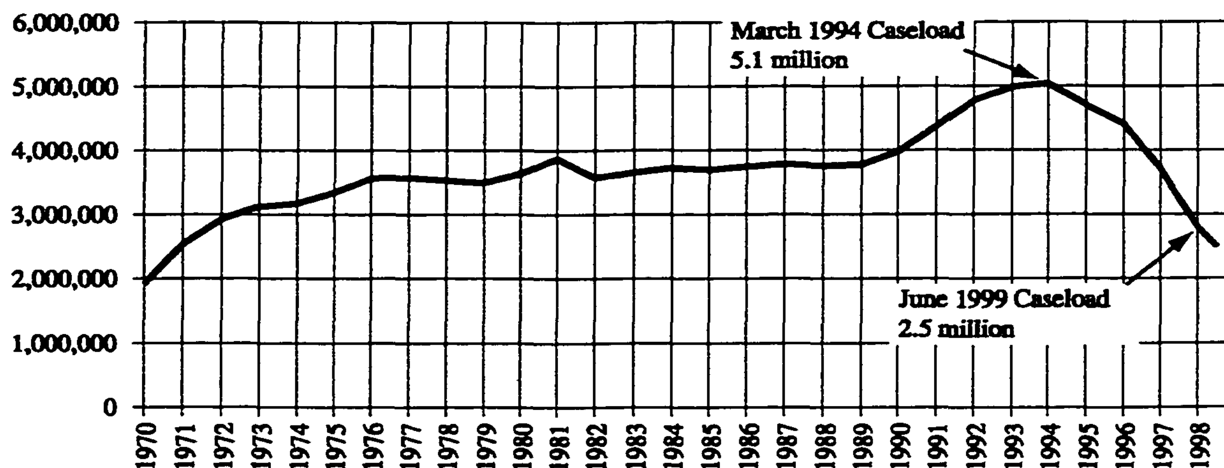

Figure 10 – Historical trends in caseloads

The data in Figure 10 represent the total number of households receiving AFDC, and, since 1996, TANF payments. The AFDC program had two components, AFDC-Basic, which served single parents and their children, and AFDC-Unemployed Parent (AFDC-UP), which is paid to low-income married couples and their children. The AFDC-UP program was only available in about half the states prior to 1990, when all states were obliged to implement it. In several states the program was started and dropped during the 1970s and 1980s. Even after 1990, the program accounted for less than 10 percent of the total number of AFDC cases.

It is clear that numerous factors are at work which affect the number of people moving on and off the welfare rolls at any point in time. A primary objective of this chapter is to examine a range of variables that might plausibly be hypothesized to affect caseloads, and by doing so shed light on the effectiveness of the 1996 legislation. The central hypothesis being tested is that the TANF legislation, so strongly lobbied for by the interest groups described earlier, had a strong negative impact on welfare caseloads. Before specifying a model of caseload changes, however, it is useful to examine some of the studies that have already been carried out.

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II. Existing Studies

There are few existing econometric studies of models of changes in AFDC caseloads, and most of those that do exist are at the state rather than the national level. Studies of changes at the state level have been carried out for California (1988), Delaware (1991), Massachusetts (1989, 1990), New Jersey (1988) and Washington (1987, 1989), as well as for New York City (1976, 1987). National models have been developed by the General Accounting Office (GAO, 1981), the Congressional Budget Office (CBO, 1993), the Council of Economic Advisors (CEA, 1997), Rebecca Blank of Northwestern University (1997), and Ziliak et al. of Oregon University (1997). The following discussion examines in some detail two of the major national studies, that by the CEA and that by Rebecca Blank, which are most instructive for the current analysis.

A. The CEA Study

Among all the studies described above, one of the most widely discussed and controversial was that of the CEA. This report, entitled *Technical Report: Explaining the Decline in Welfare Receipt 1993-1996*, updated in 1999, is the outcome of a longer term study of AFDC caseload trends by the Council. The objective of the study was to analyze the effect of economic and policy factors on variations in the share of the population receiving AFDC. The principal conclusion of the study was that "over 40 percent of the decline (in the aggregate national AFDC caseload from 1993-1996) can be attributed to economic growth and that almost one-third is related to waivers, particularly those that sanction recipients who do not comply with work requirements" (p. 2).

1. Econometric Specification

Two basic models were developed by the CEA to estimate the effects of policy and economic conditions on caseloads during the period 1976 to 1998. In both models the dependent variable was the ratio of AFDC recipients to the state's population. And both specified the

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minimum wage and maximum welfare benefits in identical ways. The remaining policy variables had alternative specifications.

In Model 1, dichotomous variables were used to capture the period when a major waiver from federal AFDC policy was in effect in the state and the period when TANF was in effect. The specification of this model was as follows:

$$\text{(1)}\quad \ln R_{st} = \text{Waiver}_{st}B_w + \text{TANF}_{st}B_{tanf} + \ln\text{Benefits}_{st}B_b + \ln\text{MinWage}_{st}B_{mw} + \text{Unemployment}_{st}B_u + y_s + y_t + \text{trend}*y_s + e_{st}$$

where the variables are defined for state s, in calender year t, as follows:

R: the ratio of the number of recipients to the population under 65 years of age (the number of recipients is obtained from administrative reports on AFDC/TANF); the model estimates the natural log of this ratio.

Waiver: an indicator variable that takes the value of one if the state had a major waiver in effect; the indicator is turned off when TANF is implemented in the state.

TANF: an indicator variable that takes the value of one if TANF was in effect in the given state.

Benefits: the maximum monthly benefit for a family of three on AFDC/TANF.

MinWage: the value of the state-specific minimum wage expressed as a monthly amount (to make comparable with the benefits variable) assuming employment for 30 hours per week for 4.33 weeks.

Unemployment: the unemployment rate (current, lagged 1 year, lagged 2 years)

Y_s: state fixed effects.

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Y_t: year fixed effects.

$Trend^*y_s$: linear state specific time trends.

The authors note that state and year fixed effects variables and state-specific time trends are included to capture unobserved factors, such as family structure and other policies that may be correlated with the observed variables (p.12). All dollar values are expressed in constant 1998 dollars using the CPI.

In the second model the effect of specific welfare policies was incorporated, regardless of whether the policies were implemented under waivers or TANF. Model 2 was specified as follows:

(2) $\ln R_{st} = X_{st}B_x + \ln Benefits_{st}B_b + \ln MinWage_{st}B_{mw} + Unemployment_{st}B_u + y_s + y_t + trend^*y_s + e_{st}$

where X_{st} represents a vector of variables that describe specific policies that are in effect in state s, in year t. Although a broad range of policies could have been tested, the authors choose five policy areas including the imposition of time limits, a family cap, work exemptions for mothers of very young children, work sanctions and earnings disregards.

The study was based on annual data from 1976-1998 from the 50 states and the District of Columbia, providing a total of 1,173 observations.

2. Results

Table 2 contains the estimates of Models 1 and 2. The results for Model 1 imply that states that implemented a major waiver experienced a decline in participation that was 8 to 9 percent greater than in states that did not. The effect of TANF was twice as great, with a decline in participation of 18 percent. All other variables had the expected sign. Higher benefits increased

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participation, as did lower minimum wages. While the current unemployment rate was not statistically significant, the 2-year lag of this variable was highly significant and associated with an increase in caseloads of over 4 percent.

Table 2
(Coefficient estimates are multiplied by 100)

	Model 1		Model 1A		Model 2		Model 2A	
	Beta	t-stat	Beta	t-stat	Beta	t-stat	Beta	t-stat
Any waiver	-9.40	2.90	-7.99	2.90				
TANF	-18.84	4.37	-18.12	1.75				
Log maximum monthly benefit	14.98	1.93	51.74	6.20	15.01	2.37	53.84	7.63
Log monthly minimum wage	-39.59	4.02	-63.91	3.61	-25.59	2.27	-51.95	2.74
Unemployment rate:								
Current	-0.36	0.74	0.20	0.30	-0.30	0.61	-0.13	0.20
1-year lag	1.50	2.40	1.70	1.88	1.29	2.06	1.65	1.92
2-year lag	4.27	8.92	5.13	7.40	3.94	8.34	4.77	7.39
Specific welfare policy variables (X)								
Termination/work req. time limit					-3.75	0.76	-4.30	0.73
Family cap					6.71	2.19	8.21	2.35
Work exemption based on age of youngest child:								
Traditional AFDC & JOBS Exemption (reference group)								
Child as old as 6 months to 3 years					-12.37	2.46	-2.79	0.57
Child newly born to 6 months old					11.56	1.53	3.05	0.40
No exemptions base on age of youngest child					4.86	0.77	0.81	0.12
Work sanctions:								
Traditional AFDC or JOBS (reference group)								
Partial/Partial					-9.71	2.52	-1.36	0.32
Partial/Full					-18.14	3.76	-22.76	4.20
Full/Full					-39.36	5.57	-33.53	4.51
Log earnings disregard					5.38	2.40	5.86	2.00
State-specific trends?	Yes		No		Yes		No	

The results for the specific policy variables included in Model 2 show, as the authors note, "mixed results" (p. 17). The time limit variable is negative, as expected, but not precisely estimated, and the higher earnings disregard is positive, but the effect is relatively small. The effect of work sanctions was negative and significant, as expected.

The family cap variable, however, is surprisingly positive and strongly significant. The implication that cutting off benefits for additional children born to mothers already on welfare

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increases caseloads is hardly tenable. It is noteworthy that Rebecca Blank, who also incorporated a waiver variable, concluded that the variable represented other changes going on in states that applied for waivers, rather than the specific effect of a particular waiver. Noting the unusually large effect of waivers in her regression results, she questions whether the waiver variable "is measuring the effect of the direct program implemented by the waiver or whether it is acting as a proxy for a whole set of changes that occurred in states where waivers were implemented" (Blank, 1997). She tests this by including not only the waiver variable but a lead of the waiver variable, noting that "lead values cannot possibly signal program effects, and must indicate that the waiver variable is correlated with other changes in the state" (Ibid.). Her results show that the lead variable is larger and more significant than the current waiver variable, suggesting that "something was changing in those states prior to the implementation of the waivers that reduced caseloads, and that the waiver programs themselves are not the primary cause of the caseload reductions" (Ibid.). These other things could include administrative changes or media publicity about the states new "get tough" laws that would discourage new applicants and encourage current ones to look for alternative sources of income.[3] Finally, work exemption waivers based on age of youngest child are not strongly associated with changes in caseloads, and the one significant effect is of unexpected sign.

On the basis of the above estimates, the authors of the study attempt to assess the relative contribution of economic and policy factors to changes in caseloads from 1993-96 (the waiver period under the Clinton Administration) and 1996-98 (the TANF period).

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[3] The CEA also question the validity of the waiver variable, suggesting that both waivers and caseloads may be related to a third factor, and Martini and Wiseman of the Urban Institute suggest that caseload declines free up resources which can then be used to apply for waivers (1997).

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The method used for determining the share of caseload change attributable to each of the factors was as follows. First, using the coefficients estimated in the model, the share attributable to change in unemployment was calculated, had all other variables stayed constant at their 1993 values. This unemployment-effects-only change in the utilization rate was then divided by the actual change in the utilization rate to produce an estimate of the share (expressed in percent) of the change attributable to reductions in unemployment. This computation was performed state by state and then averaged to produce a national estimate, using state population as weights.

A similar procedure was used for waivers. All other variables, including the unemployment rate, were held constant at 1993 levels, so that the predicted change was the result only of growth in the number of approved waivers, as measured by the waivers indicators.

Using this methodology on the estimates in Model 1, the authors find that waivers accounted for about 14 percent of the decline in caseloads from 1993-96, while the lower unemployment rate was responsible for about 26 percent. (See table 1.) A decline in cash benefits contributed to a 6 percent decline in caseloads during the same period, while the fall in the real value of the minimum wage reduced the caseload decline by almost 10%.

For the period 1996-98, when TANF was in effect, over 36 percent of the caseload decline is associated with TANF. The unemployment rate accounts for almost 8 percent during this period, while higher minimum wages account for almost 10 percent and lower cash benefits for an additional 1.4 percent.

B. The Rebecca Blank Study

Noting the "sparse research literature on the determinants of aggregate caseload changes," Rebecca Blank investigates "the role of macroeconomic forces, public policies, and demographic change in explaining caseload changes over time" in her paper, "What Causes Public Assistance Caseloads to Grow?" (1997). She uses more extensive data, both across states

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and over time, than any previous research, and in extensions of the model incorporates the effects of programs related to AFDC/TANF, including Food Stamps and Medicaid.

1. Econometric Specification

Blank estimates a series of models of the following form:

$$(3)\ \text{Caseload}_{ts} = y_1 X_{ts} + y_2 D_{ts} + y_3 P_{ts} + v_t + r_s + w_{ts}$$

where

Caseload is measured as the log of the AFDC-Basic caseload/female population ages 15-44. Blank explains that this measure is chosen since almost all AFDC households are headed by women of childbearing age. (Blank also estimates a model in which the denominator is not used.)

X is a vector of economic factors, including the unemployment rate with two lags, median wage and the 20th percentile wage.

D is a vector of demographic factors, including race, education, marital status, immigrant status, and age.

P is a vector of policy parameters, including waivers, benefit levels, whether a UP program is being implemented, Medicaid benefits, and the party affiliation of state governors and representatives.

As in the CEA model, state and year fixed effects are included; the v vector represents year fixed effects and the r vector represents state fixed effects.

The subscripts s and t refer to states and years. The w is a random error term.

Equation 3 is estimated with an OLS procedure on annual data from 1977 through 1995 for 50 states and the District of Columbia, providing a total of 969 observations.

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2. Results

A summary of the results obtained by Blank is presented in Table 3.

TABLE 3

Basic Specification	Column 1 With state time trends	Column 2 With no time effects
Unemployment Rate	.007 (.005)	.001 (.003)
Unemployment Rate $_{-1}$	.014 (.006)	.011 (.004)
Unemployment Rate $_{-2}$	.017 (.005)	.017 (.003)
Log (Median Wage) (.118)	-.774 (.094)	-.324 (.124)
Log (20th Wage Percentile)	-.104 (.084)	-.260 (.057)
% Black (.725)	.307 (1.079)	3.742 (.819)
% Single Female Heads	1.353 (.466)	.584 (.332)
Years of Education (.027)	-.046 (.023)	.025 (.020)
% Elderly (.404)	-1.502 (.322)	.107 (.439)
% Immigrants$_{-1}$ (x100)	-.031 (.024)	-.011 (.016)
% Immigrants$_{-2}$ (x100)	.074 (.025)	-.022 (.017)
Party of Governor (1=Republican)	-.030 (.008)	-.030 (.005)
Both State Senate and House Democratic	-.026 (.012)	-.013 (.009)
Both State Senate and House Republican	-.019 (.017)	-.008 (.011)
Log (Maximum AFDC Benefit Level)	.559 (.046)	.218 (.040)
AFDC-UP program	.113 (.014)	.085 (.012)

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TABLE 3 (continued)

Basic Specification	Column 1 With state time trends	Column 2 With no time effects
Log (Avg Family Medicaid Expenditures)[1]	.039 (.009)	-.008 (.008)
Any Major Waiver (.020)	-.107 (.016)	-.041 (.021)
State Effects	Yes	Yes
Year Effects	Yes	Yes
State Time Trends	No	Yes
Number of obs.	969	969

Standard errors in parentheses. All regressions based on data for 51 states from 1977-95.

[1] Average state expenditures for a family with one adult and two children.

The dependent variable is the log of the ratio of the number of AFDC-Basic households divided by the female population ages 15-44 in state s at time t. Blank uses this ratio because it "presents caseloads as a share of the population group that is most likely to be available as a household head for an AFDC-Basic case" (p. 14). This caseload share varies from 6 to 8 percent of the young female adult population over this time period.

Basic results are presented in column 1, with economic variables listed first. The unemployment rate has a major impact on caseloads, and is associated with a .7 percent increase in the current year, 1.4 percent with a one-year lag and 1.7 percent with a two-year lag. The log of median wages has a strong negative effect on caseloads, and the log of the 20th percentile has a negative effect, but much weaker.

One of the most significant demographic variables is the share of female-headed households. As Blank notes, "if you believe that the formation of single mother households is influenced by the presence and level of AFDC, then this variable is endogenous and its

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coefficient is biased upward, although the evidence suggests this is not a major problem . . . excluding the variable has little effect on the other coefficients" (p. 15). The relationship between cash welfare payments and family structure and size, particularly the number of children born to unwed welfare mothers, is highly controversial, however. While Blank does not believe there is significant correlation, Charles Murray and others believe there is a strong causal relationship from AFDC/TANF benefits and benefit levels to unwed births. The existence and significance of such a relationship will be modeled and tested in section 4 of this chapter.

A second demographic variable in the Blank model, the percent elderly, is negatively correlated with caseloads, a result that Blank does not try to explain, but which is discussed further below. Race, education and immigration in the current year show little association, although immigration lagged two years is positively correlated, suggesting increased immigration leads to increased demand for AFDC benefits over time.

Of the political variables, the party of the governor is strongly significant, with lower caseloads under Republican governors. Blank suggests this may indicate that "governors are able to shape the administrative processes by which public assistance is provided" (p. 15). States in which both houses are controlled by the same party have lower caseloads, regardless of whether the party in control is Republican or Democrat. She attributes this to the difficulty of passing welfare reform legislation when there is split party control.

The policy variables are generally significant. An increase in AFDC benefits is associated with an increasing caseload. However, at least a part of this is automatic since a higher benefit level automatically makes more families eligible as a result of the way the benefit formula is calculated.

The sign on the AFDC-UP variable is unexpectedly positive, which Blank interprets as reflecting that this variable is a proxy for the generosity of the state in AFDC-Basic programs. To

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the extent that the generosity of the state indicates a liberal ideology, this provides further evidence for the influence of ideology, and re-enforces the argument that ideology should be incorporated into such analyses. In a similar vein, family Medicaid expenditures are positively associated with caseloads, indicating, according to the author that "states whose Medicaid policies have been more expansive have seen greater public assistance usage" (p. 16).

Finally, states that received a waiver had significantly reduced caseloads. This last result is somewhat surprising since waivers were generally introduced relatively slowly and initially affected only a small share of the caseload, since they were usually demonstration projects in the first phase. Blank concludes that waivers are acting as a proxy for "other changes occurring and even preceding their implementation that are causing caseloads to decline in states that seek waivers" (p. 20). Blank does not indicate what the specific changes might be, but the ideological climate in the state is an obvious candidate.

Column 2 uses the same specification as column one, but includes state specific time trends, which provides some indication of how many of the significant variables "are significant simply because they are trending up (or down) in a linear way" (p. 16). The author notes that the inclusion of this variable reduces the magnitude of most of the estimated coefficients, although the sign and significance is not greatly changed.

Other specifications that Blank tests include removing all time trends and time effects and splitting the data into two time periods, 1977-85 and 1986-95. She concludes that the results "suggest that the panel data estimation results for AFDC-Basic caseloads are generally robust to changes in specification and to various time periods. Caseloads are strongly affected by both macroeconomic factors and by programmatic and political factors. Demographic factors are important, but their significance varies across specifications" (p. 18).

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C. Critique

The CEA study has been criticized on a number of grounds, including the specification and interpretation of the variable measuring the effect of waivers. The restriction of the analysis to waivers issued after 1991disregards some important innovations that were approved and implemented by the states prior to this cutoff, according to Martini and Wiseman (1997). Moreover, regarding the relationship between waiver approval and caseload decline, Martini and Wiseman question the direction of causality and argue that state requests for waivers may result from an unanticipated reduction in the caseload, which frees up resources for greater welfare activism, including waiver requests.

Other criticisms of this model include the choice of dependent variable and the returns to alternative opportunities. The CEA model uses ratio of persons using AFDC to the entire population, thus including many people not currently or potentially eligible for AFDC, and in combinations that differ across states. An alternative procedure used by Blank, is to use the ratio of AFDC recipients to adult women aged 15 to 44 years, since virtually every AFDC case is associated with a mother (Blank, 1997).

The CEA model includes a measure of the gains from welfare, but no measure of alternative gains from employment. Blank (1997) controls for wage trends using wage distribution data from the monthly Current Population Survey. While this measure is somewhat incomplete, ignoring, for example, changes in the Earned Income Tax Credit (EITC), it is nevertheless an improvement over completely ignoring the influence of earned income.

Overall, the Blank model includes a wider range of descriptive variables, several of which add significant explanatory power to the analysis. However, while the CEA model uses an annual data series that includes data up to 1998, the analysis undertaken by Blank terminates in 1995, prior to the passage of the new welfare law. (Dr. Blank has recently updated and extended

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her earlier work, but these additions do not significantly affect her earlier findings.) The model presented below seeks to address these issues by incorporating data up to 1999, thus reflecting three to four years of implementation of TANF, and by also including several of the variables Blank found to be significant, as well as others that are hypothesized to be significant.

III. Proposed Alternative Model

A. Econometric Specification

An econometric model is specified and tested using panel data from 50 states for the 20-year period 1980 to 1999, the most recent year for which a full set of data for all the variables in the model was available. This data set provided a total of 1,000 observations. Unlike the CEA and Blank studies cited earlier, this study did not incorporate data from the District of Columbia. When data sets included data from the District of Columbia and the states and territories, such as Puerto Rico and Guam, they were cleaned of these data before any regressions were run. The unique character of the District, particularly in terms of demographics and legislative structure, when compared to the states, rendered it inappropriate to specify the relationships under consideration by the same model. Moreover, the use of data containing extreme outliers can lead to regression results which differ substantially and have greater variance than would estimates calculated without the outliers. The model was therefore estimated on the basis of state only data in order to provide a more efficient estimate. Following the procedure used by the CEA, Blank and others, the methodology to be employed in this study is that of multiple regression analysis. All dollar-denominated variables were converted to constant 1999 dollar values.

The model to be tested is the following:

$$(4) \qquad Caseload_{ts} = y_1X_{ts} + y_2D_{ts} + y_3P_{ts} + y_4I_{ts} + v_t + r_s + w_{ts}$$

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where the dependent variable is the total number of cases (households) receiving benefits, divided by state population

X is a vector of macroeconomic variables, including median wages and unemployment with two lags,

D is the demographic variable, births to unwed mothers,

P is a vector of federal and state policy variables, OBRA, TANF, waivers and benefit levels,

I incorporates the proxy for ideology, party of the state Governor,

V_t is year fixed effects,

R_s is state fixed effects, and

W_{st} is a random error term

The policy variables incorporated into this model are those that reflect major federal and state policy changes regarding the AFDC/TANF programs. At the federal level these include: the Omnibus Budget Reconciliation Act (OBRA) of 1981, which sharply curtailed eligibility for benefits, as well as the new welfare law (PL 104-193) which introduced the TANF program in 1996. At the state level, the introduction of waivers marked changes in welfare policies, although measurement of these effects is difficult since many waivers were introduced in stages over the course of several months or even years, and in some cases certain provisions were later rescinded. These difficulties and the interpretation of the waiver variable are discussed further below. The final policy variable to be included is the level of cash benefits paid by states to welfare recipients. (Clearly, this could also be classified as an economic variable, affecting the individual's economic choices.)

The economic variables in the model include the unemployment rate in the state, with a one year and a two year lag, and median income in the state. The availability of alternative

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sources of income to welfare would clearly be expected to affect caseloads, and thus a strong positive relationship between the unemployment rate and the caseload level would be expected. Moreover, to the extent that those who become unemployed spend some time in job search activities prior to seeking welfare benefits, there would be an anticipated lag between changes in the explanatory and dependent variables. Thus both current and lagged unemployment data were included in the model.

The other economic variable included in the model is median income. Even where employment opportunities are available, employment may not be the economically rational choice for a welfare mother. The cost-benefit calculus between welfare and work is clearly affected by the level of wages in jobs available to her in comparison to the welfare payments she is entitled to receive. A negative correlation between median wages and caseloads is hypothesized, reflecting the increased preference for work as median wages rise relative to welfare payments in a state. The use of median income as a measure was selected in part because of the theoretical issues related to the median voter theorem discussed earlier in this paper. The analysis is extended in section 4, with the development of a supplementary model.

It was originally intended to include two demographic variables: the number of immigrants entering the state since children of immigrants born in the United States are eligible for cash benefits if the household income is sufficiently low and other requirements are met, and the growth in female-headed households, since growth of this category would cause a compositional shift in the overall population that would lead to a higher caseload. The difficulty of obtaining accurate and timely data on immigrants precluded the use of this variable at this time, however. Among other issues is the problem that while immigrants must record a state in which they intend to reside, it is not always possible to verify changes in residency.

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Data at the state level on female-headed households with children also proved illusory. The closest approximation, which was used by Rebecca Blank, was a figure for 'the share of households headed by a single woman and including other related persons in the households' (Blank, 1997, Data Appendix). The source of this data was the Outgoing Rotation Group of the Current Population Survey. In this survey there is a rolling sample and the outgoing group each month is surveyed and the 12 monthly figures (which comprise different samples) are then aggregated to obtain an annual figure. In addition to statistical limitations from the survey method, the data obtained is problematic in that it incorporates a far broader category than the one sought. Included, for instance, are households consisting only of adults, households in which there may be children but where those children are not the children of the household head, multiple family units in which a female of one generation lives with the (married or unmarried) members of the next generation and their offspring, and so on. Clearly a proportion (which is unknown and which could differ by state and over time) is not eligible for the program. An alternative, which was suggested by Professor Blank, was the use of the percentage of births in the state in which the mother was unmarried.

The final variable to be included in the model is a dummy for the party of the state governor. It is hypothesized that ideology plays a significant role in the legislative process, just as it plays a significant role in individual behavior, and a conservative ideology would be negatively associated with caseload growth, (reflecting both the impact on the behavior of individuals and the degree to which the state welfare program is liberal or conservative in its eligibility and benefits policies). A Republican governor is a proxy for a conservative ideology.

B. Results

The results of the regression are presented in Table 4. All of the economic variables are significant and have the hypothesized sign.

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The current unemployment rate as well the rates with a one and two year lag are strongly positively associated with caseload levels, suggesting that where employment opportunities are available a certain percentage of those otherwise on welfare will take advantage of these opportunities. This result is in accord with the relationship hypothesized and the results of the other studies discussed above.

Real median income is strongly negatively associated with higher caseloads, as hypothesized. This result reflects both a change in the cost benefit calculus of potential welfare recipients facing a work or welfare choice, and the fact that at higher overall income levels, which are likely correlated with median income levels, fewer households are eligible for cash benefits.

The two major policy variables, TANF and benefit levels, were also significant and of the expected sign. Implementation of the new welfare law, TANF, is strongly significant and, as hypothesized, negatively associated with caseload levels, reflecting a legislative output that rewarded those powerful groups seeking a cut in the welfare rolls. This clearly lends strong support for the Public Choice hypothesis.

The second major policy variable, the maximum benefit level for a family in a state (which is also an economic benefit in the sense that it enters the individual's economic cost/benefit calculus) was positively related to caseload level and was highly significant. This is perfectly in accord with rational choice theory, and provides further evidence for the power of policies to influence economic and social behaviors.

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TABLE 4

Variable	coefficient	t-statistic
GOV [1]	–.000188	–.885766
OBRA	.001224	2.870010***
TANF	–.004860	–11.251770***
WAIVERIMP[2]	.001104	2.837493***
AMB3IN99[3]	1.21E-05	15.90039***
NWEDBRTH	.049654	23.54542***
REALMDIN99	–7.42E-08	–3.060389***
UNEMPRATE	.000304	2.738993***
URATE1LAG	.000291	1.993585**
URATE2LAG	.000323	3.142788***
STFIX	3.39E-05	4.506424***
YRFIX	–.000107	–2.99732**

R-squared 0.583513 Adjusted R-squared 0.578449
F-statistic 115.2351 Prob. F statistic .000000
** Significant at 95% confidence level
*** Significant at 99% confidence level
[1] Party of State Governor
[2] Dummy = 1 if waiver implemented.
[3] The maximum benefit for a family of three in the state.

The two other policy variables, waivers and OBRA, did not have the expected sign for reasons suggested below. The sign for the waiver variable is positive, as is the sign for OBRA, and both of these are significant. There are several possible explanations. One is the usual that these variables may not in fact represent what they are supposed to represent. The waiver variable, for instance, which reflects only the date of introduction of a major waiver, may not reflect the extent to which the waiver was introduced throughout the state, the speed with which it was fully implemented, or the extent to which the provisions affected the majority of the

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caseload. Rebecca Blank concluded in her study that the waiver variable was largely a proxy for other related policy changes in the states.

The OBRA variable reflects two policy initiatives, one in the first year of implementation of this federal policy, when rapid caseload declines were caused, and a second when states took measures to counteract the affects of the federal legislation, and introduced their own offsetting provisions. To the extent that a state policy counteracted the federal policy, the caseload would not be expected to decline in that state over the longer term when the state policy was fully implemented. In fact, the states may have overcompensated for federal cutbacks leading to the observed outcome for this variable.

An alternative explanation for the differences in the effectiveness of the policy variables relates to public choice theory. The role of interest groups in the development and passage of TANF was tremendous. As explained in the preceding chapter, some of the most highly financed and best organized groups participated in intensive lobbying for TANF. Their primary objective was to reduce caseloads. The regression results suggest they were very successful. In contrast, state waivers received far less attention, especially from the national lobbying interests, and caseload reduction was not necessarily the overriding immediate goal. It is noteworthy that in several of the other major studies the statistical effect of this variable was not as expected. Rebecca Blank suggested that the waiver variable "acts as a proxy for a whole set of changes that occurred in states where waivers were implemented" (1997, p.19). She tests this by running a regression that includes not only the waiver variable but also a lead of this variable, which could not signal program effects. Her results show that the lead variable is almost as large and significant as the current waiver variable, which she interprets as indicating that "something was changing in these states prior to the implementation of the waivers . . . the waiver programs themselves are not the primary cause of the caseload reductions" (Ibid.). The fact that policies

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such as state waivers and OBRA were far less influenced by interest groups than TANF (being more a function of the internal policy-making of bureaucrats and politicians at the state and federal levels,) AND were far less effective in reducing the welfare caseloads provides further evidence for the public choice theory of interest groups.

The demographic variable, the percentage of births to unwed mothers, was positive and significant. The interpretation of this result is somewhat ambiguous, however. To the extent that eligibility criteria limit benefits to needy mothers with children, and that single mothers as a group have lower income than married mothers, a positive correlation would simply reflect the eligibility criteria of the program. However, to the extent that higher benefits provide a greater incentive for unmarried women to have children in order to qualify for financial assistance, a positive correlation would reflect the causality between the two variables. As discussed earlier in this paper, Charles Murray and others have long held that higher welfare benefits, and in fact the welfare system in general, provide positive incentives for welfare mothers to have additional children. Given the central importance of this issue to an understanding of changes in welfare caseloads a specific model is developed in Part 4 of this chapter to examine the relationship between caseloads and births to unmarried mothers.

The only ideology variable to be incorporated in this model was a dummy variable for the party of the Governor of the state. This variable, reflecting political ideology, was not significant, no doubt in part due to the fact that the legislative outcomes depend not only on the governor but also on the composition of the state legislature. Moreover, party, in itself, is not a precise reflection of ideology, since certain southern Democrats may, in fact, be somewhat more conservative than some northern Republicans, and, moreover, during the period in question both parties may have tended to become more centrist.

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Before leaving the subject of ideology a couple of comments must be made. In order to more fully explore this issue a more accurate proxy for ideology needs to be defined and it may be more fruitful to examine characteristics that would correlate with a conservative or liberal ideology in the electorate rather than in the elected officials. Such characteristics might be social or demographic: religious affiliation or number of churchgoers, or percent elderly in the state, for example. Since the elderly population is generally more conservative, one could hypothesize that the higher the percent of elderly in the state the more likelihood of both a legislative and social climate which fosters low caseloads. In Rebecca Blank's study there was a highly significant negative correlation between the percent of elderly and caseloads, a result which she does not explain, but which supports this interpretation, and suggests that indeed "ideology matters."

In a similar vein, the percent of births to unmarried mothers may, at least in part, reflect social ideology (in the sense of social values) and the acceptability of childbirth outside of marriage. To the extent that the percent of births to unmarried women reflects a more liberal ideology, a positive correlation between percent of unwed births and caseloads tends to give further support to the recurring theme that "ideology matters." As mentioned above, this relationship is explored later in this chapter.

IV. Extensions of the Basic Model

The final section of this chapter uses subsets of the data along with some additional data to examine in more depth three areas of specific interest: the relationship between welfare benefit levels and births to unwed mothers; the influence of interest groups and ideology on the level of benefits, and the median voter theorem, or more specifically, the relationship between median income and the level of benefits.

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A. The Relationship between Welfare Programs and Births to Unwed Mothers.

The existing literature on the relationship between welfare programs and births to unwed mothers is inconclusive. Charles Murray, Robert Rector and others claim a strong causality from higher benefit levels to higher births and thus caseloads, as discussed earlier in this chapter. However, after completing an extensive literature review and after analyzing time series data over several decades, Robert Moffitt concludes that "the evidence does not support the hypothesis that the welfare system has been responsible for the time series growth in . . . illegitimacy" (Moffitt, 1992, p.29). To shed further light on this relationship, a model is developed below, using a subset of the variables for the full model, to examine the relationship between unwed births and cash benefits. The model used data from 50 states over the period 1980 to 1999, and incorporated state and year fixed effects. The specification of the model was as follows:

$$(5) \qquad NWEDBRTH_{ts} = C + AMB3IN99_{ts} + STFIX_t + YRFIX_s + W_{ts}$$

The purpose of this analysis was to test whether, in fact, higher cash benefits provided an incentive for unmarried women to have children in order to increase their income from cash welfare payments, which generally are higher for each additional child. Surprisingly, the regression results showed a significant *negative* correlation between these two variables, suggesting that higher benefit levels, per se, do not increase caseloads (See table 5 below.) Whether or not the negative correlation indicates that higher benefits actually *lead* to a lower percentage of births to unwed mothers is not clear. A higher level of benefits could, theoretically, provide a level of support that enabled unwed mothers to transition to the workforce more easily than those who resided in states with lower benefit levels. The validity of such an interpretation is partially dependent on the importance and effects of missing variables in such a simple model.

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Among the missing variables that one would expect to influence unwed births are social or ideological trends that affect the social acceptability of unwed births. To the extent that these trends would be captured by the year fixed effects variable the strong significance of this variable indicates that such factors may play a significant explanatory role.

TABLE 5

Variable	Coefficient	t-Statistic
C	0.235584	35.51529
AMB3IN99	-9.74E-05***	-11.40208
STFIX	-.000941***	-8.465472
YRFIX	.008265***	29.05039

R-squared = .566686 Adjusted R-squared = .565381

F-statistic = 434.1882 Prob. F statistic = .00000

** significant at 95% confidence level

*** significant at 99% confidence level

There is a further technical issue related to the relationships in the basic model, and that is the problem of endogeneity. If the variable representing welfare benefits is correlated with the variable representing births to unwed mothers then ordinary least squares (OLS) estimation may give biased results, since the error terms associated with each of the variables will not be independent. An alternative statistical procedure, two stage least squares (2SLS), in which the benefits variable was replaced by a series of instrument variables (mainly those interest group variables in equation 7), was also run. The results of this procedure were not significantly different from those using the OLS method. (See section D below.)

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B. Interest Groups and Ideology

The role of interest groups and ideology has been a major focus of this study and is considered of central importance in understanding the legislative outcomes of economic issues such as welfare reform. Unfortunately, it was not possible to obtain data on some of the major interest groups. The amount and types of data collected is limited, and access to that data for non-members is often restricted. The Chamber of Commerce, for example, does not make available even such basic data as the number of members in each state. It was, however, possible to obtain data on the number of federally registered corporate PACS in a state, and the expenditures of these organizations, variables which would be expected to correlate with the strength of the Chamber of Commerce and with business interests in general. The per capita expenditures by state was chosen as the most appropriate measure of the strength of business interests in a state. Given the need for additional workers, it is hypothesized that this variable would be negatively correlated with the level of benefits in a state, since lower benefits would provide greater incentives for potential workers to join the labor force.

It was also possible to get information on union membership by state, and union membership as a percentage of total off-farm employment in the state was the variable used to represent the interests of workers. This variable would be hypothesized to be positively correlated with benefit levels, since this would reduce the supply of labor and, ceteris paribus, increase the equilibrium wage.

In view of the influence of the Christian Coalition on the legislative process, a variable was sought to represent this ideological group. The closest proxy available was the percentage of a state's population affiliated with a Christian church. Clearly this is a more inclusive categorization than membership in the Christian Coalition, and would thus represent a less homogeneous ideology. For example, members of some of those interest groups most adamantly

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opposed to the welfare legislation, claiming that it was punitive towards welfare recipients, and most in favor of more generous benefits, would be included in this category, along with the Christian Coalition members who lobbied for the opposite policies. In spite of these differences however, it seems reasonable to hold that the relative strength of the Christian Coalition in a state would be highly correlated with the percentage of the population affiliated with a Christian church, thus rendering the variable a reasonable proxy.

A pure interest group model was specified in which the levels of cash welfare benefits in the states were a function of the strength of union membership, corporate PAC expenditures and the percentage of the state population affiliated with a Christian church. Since this last variable was available only for the years 1980 and 1990, it was not possible to do a time series analysis and instead a cross sectional study for the year 1990 was undertaken. A total of 50 observations was used, one for each state. The model was specified as follows:

$$(6) \qquad AMBIN90_s = C + CHRADS_s + CORPACPC_s + UMEMP_s$$

where

CHRADS = percentage of state population adherents of a Christian Church

CORPACPC = the per capita expenditures of Corporate PACs in the state

UMEMP = Union membership as a percentage of employment in the state

The results of running this regression indicated that each of the variables had the expected sign, i.e., corporate PACS and adherents of Christian Churches were associated with lower welfare benefits and union membership was associated with higher benefits, but only union membership was also statistically significant. These results are presented in Table 6.

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TABLE 6

Variable	Coefficient	t-statistic
C	417.9198	3.054342
CHRADS	-2.179181	-1.203003
CORPACPC	-7630573	-1.276235
UMEMP	1759.176	4.677968***

R-squared = .423836   Adjusted R-squared = .386260

F-statistic = 11.27948   Prob. F statistic = .00001

*** significant at 99% confidence level

C. The Combined Interest Group-Median Voter Model

The final model to be specified was one in which the explanatory variables included both interest groups and the median voter as represented by median income. The median voter theorem maintains that the median voter plays a crucial role in the allocation of government expenditures. The income effect would suggest that a higher median income would lead to a preference for higher expenditures, and in the case of welfare programs, a higher level of benefits. The hypothesis to be tested is therefore, that higher median income in a state is positively correlated with benefit levels. The specification of the model is as follows:

$$(6) \qquad AMBIN90_s = C + CHRADS_s + CORPACPC_s + UMEMP_s + MDINC\$90_s$$

Where the variables are identical to those in equation 6, supplemented by the median income variable, MDINC$90.

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The results of this regression are presented in table 7. The median income variable was indeed positively correlated with the benefit level, and was strongly significant, providing supportive evidence for the median income theorem. Moreover, the variables representing both corporate and union interests were statistically significant and of the expected sign. As in the previous model, the Christian adherents variable was not significant.

TABLE 7

Variable	Coefficient	t-Statistic
C	-258.4054	-1.706461
CHRADS	0.363399	0.255730
CORPACPC	-12426105	-2.730376***
UMEMP	1044.977	3.420978***
MDINC$90	0.023521	6.071193***

R-squared = .683269 Adjusted R-squared = .655116

F-statistic = 24.26915 Prob. F statistic = .00000

*** significant at 99% confidence level

D. Two Stage Least Squares Model

As discussed earlier, a two stage least squares (2SLS) procedure was used as an alternative to OLS in order to address potential problems of endogeneity in the basic model, and avoid inconsistent regression results. This procedure employs an instrument variable, the value of which is estimated statistically, to replace the values of the original variable contained in the original data set. The first stage of the procedure involves using variables exogenous to the system to arrive at an estimated value for the variable. Thus, for instance, if the welfare benefits

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variable is suspected of being endogenous, it could be replaced by an instrument variable which is estimated by regressing welfare benefits on those public interest variables such as union membership and corporate PAC contributions exogenous to the original model. In the second stage of the procedure an OLS regression is estimated using the estimated value of the variable in place of the original value.

Several models were tested, none of which gave significantly different results from those described above. All the 2SLS models were run on only a subset of the data, since some of the needed exogenous data were available for census years only, i.e. 1980 and 1990, and thus only 1990 data were used. The 2SLS models are thus based on a substantially lower number of observations. Results from one representative model are given in table 8 below. This model estimates average monthly caseload as a function of unwed births, the unemployment rate with two lags, and an instrument variable estimate of welfare benefits calculated by regressing benefits on median income and the interest group variables, corporate PAC contributions, union membership and adherents of Christian churches.

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TABLE 8

Variable	Coefficient	t-Statistic
C	-345107.0	-2.927388***
AMBIN90	249.6416	2.367558**
NWEDBRTH	969293.1	3.303400***
UNEMPRATE	-21226.7	-0.910150
UNEMPRATE1LAG	62345.06	1.536502
UNEMPRATE2LAGS	-29262.02	-1.309630

R-squared = .287865 Adjusted R-squared = .206941

F-statistic = 3.213055 Prob. F statistic = .014723

*** significant at 99% confidence level

** significant at 95% confidence level

As in the OLS models, caseload is shown to be positively and significantly related to unwed births and median income. The relationships with unemployment are less clear. While two out of three are of the anticipated sign, none is statistically significant. The overall conclusion from running this and other 2SLS models is that there is little to be gained and the OLS models are robust.

V. Conclusions

It is evident from the foregoing analyses that the interrelationships between the variables affecting welfare benefits and welfare caseloads are extremely complicated. Moreover, it is undoubtedly true that some variables have been omitted, either because of unavailability or because their effect is unknown, and the measurement of some of the variables is most probably less than 100 percent accurate due to the difficulties of compilation or extrapolation. Bearing

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these caveats in mind, however, it seems clear that the statistical analysis presented above provides substantial support for the public choice argument that the influence of interest groups on economic policies such as welfare legislation is both substantial and effective. What is also clear is that it is far easier to measure and analyze the effects of economic interest groups, such as unions and corporations, than to measure and analyze the effects of ideological groups, such as the Christian right. A major challenge for the future is to more clearly identify, define and measure the influence of such groups.

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CONCLUSIONS

This dissertation has examined the relevance of two alternative economic models, the public choice model and the public interest model, in explaining the evolution of social welfare policy embodied in the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). This legislation, it was initially felt, would be minimally affected by the pressures of interest groups and the rent seeking activities which are so much a part of the public choice paradigm. In fact, the legislation turned out to attract not only the traditionally active interest groups with primarily pecuniary or political objectives, but also some very influential ideological groups, that sought to inject an ideological component into the legislation.

After describing and critiquing the two economic models in the first three chapters of the dissertation, the focus turned to a description and analysis of the history of social welfare policies in Great Britain and the U.S. in chapter four, and a more detailed historical perspective of PRWORA in chapter five. This historical perspective was highly instructive in that it made clear certain patterns that have recurred throughout the period under consideration. In particular, both the problems and the proposed solutions have been strikingly similar over decades and even centuries, and moreover, in the search for solutions interest groups have always played a central and critical role.

The issues that cause frustration and consternation today, ranging from illegitimacy to the difficulties of discriminating between the 'deserving poor' and the able-bodied, have changed little. Perhaps more surprising is the similarities in proposed solutions; orphanages were recently proposed for children whose parents cannot afford to support them, and the apprenticeship

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arrangements of old bear some similarities to the job training efforts of recent programs. Overall, sanctions have been less harsh -- public flogging has been replaced by elimination of benefits, for example -- and there has been a greater focus on assisting the working poor through positive incentives such as the Earned Income Tax Credit rather than through punitive deterrents. [1]

A second recurring theme, which is discussed in detail in chapter six, is the political involvement of special interest groups seeking to influence social legislation to achieve their own goals. This is not a new phenomenon; these groups, which include business interests, political interests and ideologically motivated groups, have consistently been involved in influencing legislation in order to further the interests of their own group.

Throughout the period under consideration business interests have consistently been involved in welfare legislation. This category includes a diverse array of enterprises ranging from the manufacturers who opposed changing child labor laws in the nineteenth century to the employers supporting workers compensation in the early 1900s and the Chamber of Commerce whose intimate involvement in the 1996 welfare legislation has been documented. In this group also is the medical profession whose involvement extends from opposition to the Shepherd Towner Act in the nineteenth century to opposition to Medicaid block grants in the twentieth century.

Similarly, political interests have played a role throughout, from local authorities seeking funds and positions enabling them to engage in patronage, to President Johnson's Great Society, which according to Senator Moynihan, was created by an administration looking for popular policies rather than by popular demand, and to Clinton's attempted reform, and the final passage

[1] Although some might say that the Earned Income Tax Credit has an antecedent in the Speenhamland system which provided wage supplements to the working poor in England in the late eighteenth century.

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of PRWORA by a Republican Congress that outmaneuvered Clinton and based their proposals on the outcome of political polls.

Finally, a broad range of ideological groups, including both conservatives and liberals has been active and effective not only in providing welfare services and benefits, but, particularly in recent times, also in influencing welfare policies. This category also comprises a very diverse group of institutions, ranging from the Settlement workers of the nineteenth century fighting for better conditions in the cities, to the Christian Coalition and Heritage Foundation fighting for moral values to be enshrined in the Welfare law in the twentieth century.

The provision of private charity by philanthropic organizations has been a constant feature of the social welfare landscape. As the locus of such efforts moved from the early monasteries in England to the international organizations such as those affiliated with the major denominations, not only has the scope of their services expanded but there has been a vast increase in political lobbying activities and expenditures. Moreover, ideological groups in recent times have held opposing opinions on appropriate social welfare legislation. One reason for this is the growth of evangelical organizations more interested in influencing moral values than in providing welfare services. The more traditional groups who provided welfare services were generally liberal organizations and often affiliated with the Democratic Party. Groups such as those represented by the Christian Coalition are more concerned with promoting moral values and are closely affiliated with the Republican Party. The legislation and the welfare debate of the 1990s was clearly vastly more influenced by the religious right than by the more liberal religious organizations. The bill that was ultimately passed reflected the power of the Christian Coalition and affiliated groups, power that was derived in large part from their ability to provide a large block of votes and from their close ties to the Republican party at a time when that party was politically popular, was given a mandate for change and had control of the Congress.

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Two further comments need to be made regarding the role of ideology in influencing policies. The first point is to note the importance of certain influential social critics and other writers whose ideas can have a very powerful impact on public opinion, whether instilling fear of the consequences of adopting or failing to adopt certain policy measures, or engendering sympathy for the groups that might be affected by such policies. The effect of such shifts in public opinion is not lost on legislators. In the nineteenth century, for example, the public was very influenced by writers such as Thomas Malthus who warned of the danger that population growth, when unrestrained by positive checks such as delayed marriage, would be checked by starvation, sickness, infanticide and other such dire consequences. In the same vein, Alexis de Toqueville wrote about a violent revolution being the consequence of any permanent system of poor relief which would 'benumb human industry and activity' (Drescher, 1968). A vastly different perspective, but one that was also influential was that of Charles Dickens who generated a certain amount of sympathy for the cause of poor relief. Writers such as Charles Murray and, at the other end of the ideological spectrum, Michael Harrington, not to mention Senator Moynihan, have been extremely influential in the twentieth century. Murray, in particular not only influenced public opinion but indirectly influenced the language of the 1996 welfare law by adding credibility to the message of the Christian Coalition.

The second point to note regarding ideology is that existing economic models do not deal well with the issue. A great deal more effort is required in terms of definition, measurement and analysis of the effect of ideological interests on economic policy outcomes. The econometric analysis in chapter seven of this dissertation provided evidence that the role of interest groups on economic policies such as welfare reform is substantial and effective. It also showed that it is far easier to measure and analyze the effects of economic interest groups, such as unions or corporate political action committees, than of ideological groups such as the Christian Coalition. Such an

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endeavor could prove to be highly fruitful in terms of more fully understanding the process and outcomes of economic legislation.

The pervasiveness of interest groups in the formulating of economic welfare policies is phenomenal. The growth in the number and size of welfare organizations and the expansion of their scope from local to international has been remarkable. Moreover, the shift from private provision to public provision of welfare has also been monumental. And the larger the government pie, the more profitable rent seeking activities will be and the greater the incentives for interest groups to invest in activities aimed at increasing their share. While the involvement of interest groups in the formulating of economic policy is clearly not new, the extent of their influence, in terms of expenditures and the number and size of such groups, has reached unprecedented proportions.

Whether or not the new welfare law marks the turn of the tide in sending back responsibility to lower levels of government and whether the current Administration's focus on faith- based organizations marks a move from public to private provision of welfare remains to be seen. Regardless of whether either of these notions represents the goals of the government, this dissertation has shown that the actual outcome of any legislation is highly dependent on the inputs of interest groups and the interactions of such groups with those responsible for passing the legislation.

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