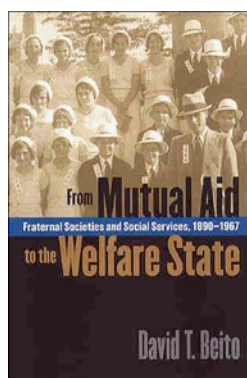
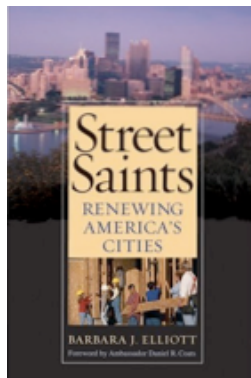
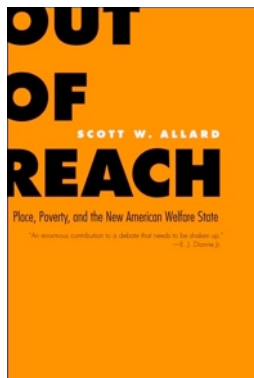
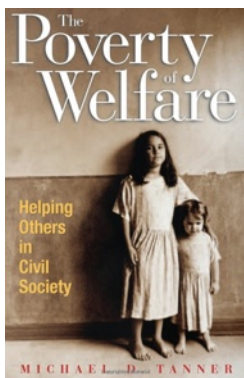


# Social Services

For those living in poverty in the U.S.

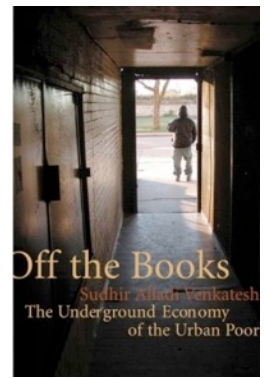
State and federal governments provide a wide array of social services for those living in poverty, but also reduce access to jobs, health care, & housing through regulation

Economic Thinking • Social Services Topic • Fall, 2009



MYTHS OF RICH & POOR

WHY WE'RE BETTER OFF THAN WE THINK  
W. Michael Cox and Richard Alm



## Rethinking Social Safety Nets

A social safety net is different from a government one, because society is different from government. Government is the only social institution able to legally use force to extract funding, and use force to carry out programs. Understanding this distinction between *society* and the *state* is key for effective social services for those living in poverty. Americans have long been skeptical of state coercion to fund and provide social services.

Societies are collections of institutions each drawing upon unique relationships. Social safety nets draw upon relationships based on caring, or secured with contracts, that shape the scope and quality of services provided.

When we say someone “fell through the safety net” it suggests a government agency could have or should have caught them. Not to quibble about language, but social services are provided by society: governments provide government

services. State and non-state services are similar: the U.S. Postal Service provides services similar to FedEx and UPS, and Social Security is similar to individual savings. But though these services are similar in form, they are far different in substance, as most customers can attest.

When someone falls through society’s safety net, they have in reality fallen through many safety nets. First, they have fallen through an employment safety net, being unable or unwilling to take even a short-term job to sustain them while searching for a better job. Second, society’s fallen have exhausted the personal savings safety net—the six months of savings we are all supposed to set aside to sustain us through hardship or hold us over in between jobs. A third safety net is the insurance that many pay for monthly to insure against job loss or medical problems.

Slipping past these three social safety nets, most of us would fall next into the hands of family and friends. This safety

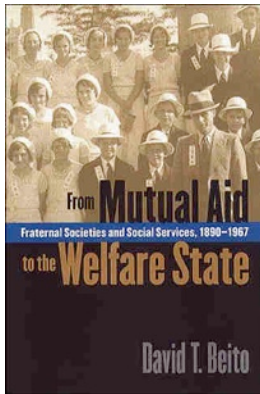
net we weave for ourselves in our long-term relationships with those around us. We help those we care for when they ask. And we can naturally hope and expect these friends and relatives will help us in our time of need.

Some have torn these natural support networks of friends and family, or not kept them in good repair. So these unfortunate souls keep falling after losing jobs, savings, and not having insurance, family, or friends to support them when life goes wrong.

The next social safety net is set out by churches, mutual aid societies, and other associations. Churches ask funds from members each week to support charitable causes, including members in need. These services are provided discreetly and are one of the responsibilities churches take on. Mutual Aid Societies offered another safety net, but have diminished in the U.S. and England as government social programs and insurance regulations squeezed them out.

## Mutual Aid Safety Net

Historian David Beito writes: "Mutual aid was one of the cornerstones of social welfare in the United States until the early 20th century. The fraternal society was a leading example. ... A conservative estimate is that one-third of adult American males belonged to lodges in 1910." ("From Mutual Aid to Welfare State: How Fraternal Societies Fought Poverty and Taught Character," Heritage Backgrounder #677, July 27, 2000). These voluntary associations did more than provide social services for those living in poverty, they also provided medical insurance and a network of friends and business contacts that helped advance social and business careers. Fraternal societies built and ran orphanages and hospitals as well as operated early Health Maintenance Organizations employing lodge doctors.



Fraternal societies existed for women as well as men, and for black as well as white Americans. Beito writes "Maggie L. Walker, the head of the all-black Independent Order of St. Luke... established thrift clubs for the young and, with a Franklinesque flourish, urged members: *to save some part of every dollar you have, and the practice will become a habit--a habit which you will never regret...*"

Beito continues, "A key tenet of fraternal individualism was the need to exercise mastery over the self. As a promotional publication of the all-white Loyal Order



of Moose put it, the 'kingship of self-control' was the 'noblest royalty of a man. The self-control he is taught to observe is

the highest and best use of all his faculties, the mastery of his desires, passions and appetites, and the power to withstand temptation.. Self-control meant the power to resist such vices as gluttony, 'over-drinking, over-smoking, lack of exercise, bad air, bad conversation, fool books.'" A modern revision for students might include "over-watching television" and "over-playing video games."

Fraternal organizations, like churches, discussed, taught, and preached the importance of good behavior, of self-control, frugality and savings, and charity towards others. These practices promote prosperity, which helps explain why the United States enjoyed fast economic growth during the years when these beliefs were taught in schools and social organizations, as well as through books, magazines, church sermons, and public speeches.



*St. Luke Penny Savings Bank was founded in 1903 by Maggie Lena Walker. Walker was the first African-American woman to establish and serve as president of a bank in the U.S. With money gathered from the members of the Independent Order of St. Luke, an African-American benevolent society, Walker opened the St. Luke Penny Savings Bank.*

Most Americans before the 1950s lived in poverty, as we define poverty today. Their houses were small and most families had little left over after buying food and other essentials. The widespread

public agreement on the importance of hard work and savings along with charity for the disadvantaged, helped America stay a healthy society with a thriving economy. But many Americans then as today suffered misfortune and turned to family, friends or charities for assistance.

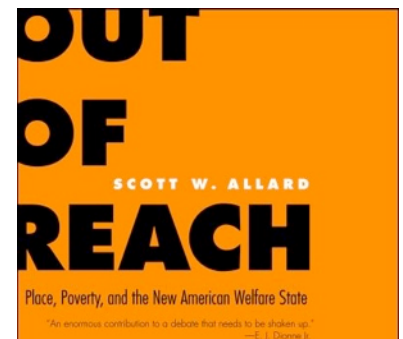
The next social safety net, then as today, is provided by the thousands of charitable organizations willing to help any who ask. These churches and charities reached beyond their members to assist those who have fallen through the other social networks of family, friends, and membership associations.

Scott Allard

notes that social services "receive somewhere between

\$150 and \$200 billion in public and private financing annually." ("Rethinking the Safety Net," *Focus*, Vo. 26, No. 1, Summer-Fall 2008) His survey of social service providers in Chicago, Los Angeles, and Washington DC found two to three times more nonprofit social service agencies in operation in these cities, compared to government providers (though many nonprofit agencies surveyed received government grants and contracts). Allard found two-third of all nonprofit agencies draw less than 50 percent of their funding from government grants or contracts.

Allard, the author of *Out of Reach: Place, Poverty, and the New American Welfare State*, notes that location is key for effective social service provision, "Six out of ten providers across the three cities maintain caseloads in which a majority of clients live within a three-mile radius. Even though the three cities vary in size and in type of public transit systems, there are few differences in the proportion of clients living within three miles." ("Rethinking the Safety Net," p. 3).

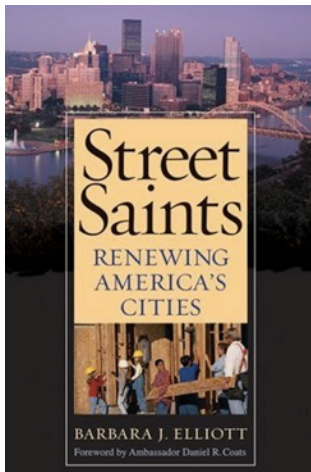




# Street Saints

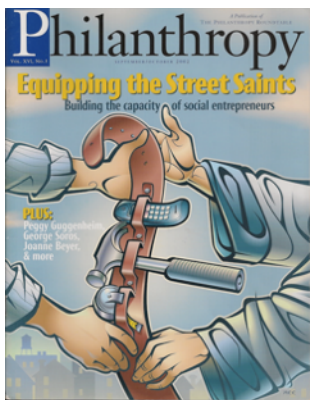
## Renewing America's Cities

**Barbara Elliott**, President of the Center for Renewal in Houston, surveys successful faith-based social service organizations in *Street Saints: Renewing*



*American Cities*. Belief and behavior contribute to poverty in America and around the world. Faith-based and church-based charities focus on the beliefs and behaviors of the poor.

Elliott interviewed social entrepreneurs who are helping turn gang members into computer programmers and equipping former drug addicts with job and life skills. Based on eight years of hands-on experience and more than 300 interviews, *Street Saints* provides motivational stories about successful individuals and programs, and a sociological study of faith-based efforts that work to heal dysfunctional people. Readers take a tour of communities and institutions in America where local social service entrepreneurs search for and apply faith-based strategies to help develop individual self-



discipline and improvement, and that strengthen local communities.

Elliott provides strong evidence for alternatives to expanded government social services,

and strongly advises nonprofits to avoid being distracted and disrupted by state funding. [www.CenterforRenewal.org](http://www.CenterforRenewal.org)

# The Behavior of Poverty

"The dirty little secret of global poverty: some of the most wretched suffering is caused not just by low incomes but also by unwise spending by the poor — especially by men." (The Women's Crusade, *New York Times*, August 17, 2009)

Nicholas Kristof continues: "Our interviews and perusal of the data available suggest that the poorest families in the world spend approximately 10 times as much (20 percent of their incomes on average) on a combination of alcohol, prostitution, candy, sugary drinks and lavish feasts as they do on educating their children (2 percent)."

Much poverty in the United States is similarly linked to behavior, especially poor spending and saving habits. Reality punishes people for drinking too much with hangovers and sometimes jobs loss, poverty, and health problems. How can social service programs better protect people from self-destructive behavior without reducing their freedom to live their lives and learn from their own mistakes?

As much as some might like to blame Third-World poverty on bad behavior, Peruvian economist Hernando de Soto argues that most everyday people in the developing world lack access to "economic oxygen," the legal institutions of property rights and contract that most Americans take for granted. Interestingly, in America's poor inner-city neighborhoods, many of these same legal and economic institutions are not functioning.

Critics of current social services programs note that these government enterprises serve as a means of social control. Improved legal institutions would enable the poor both in the U.S. and in developing countries to prosper and escape social control by entrenched elites.



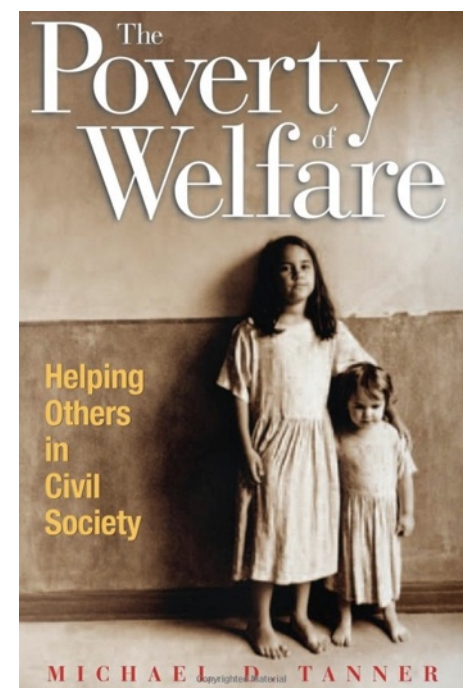
# THE POVERTY OF WELFARE

## HELPING OTHERS IN CIVIL SOCIETY

**Social service programs** for those living in poverty expanded dramatically after passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act. PRWORA cut cash transfers to welfare recipients, which before 1996 accounted for 73% of welfare spending. After PRWORA, cash assistance dropped to 40% of welfare spending.

The PRWORA reforms led to a drop in numbers of people receiving welfare benefits. Michael Tanner, in *The Poverty of Welfare*, notes: "the number of welfare recipients declined dramatically after 1996, which meant that states had far fewer individuals to serve with the same size grant. As a result, on a per-recipient basis, spending has increased from about \$7,000 to more than \$16,000." (as of 2003).

The broader problem is that federal social service programs have never been effective in helping those living in poverty to gain independence. Block grants to state social service agencies enabled decentralization, but limited success.



[www.hup.harvard.edu/catalog/VENOFF.html](http://www.hup.harvard.edu/catalog/VENOFF.html)

## OFF THE BOOKS

### The Underground Economy of the Urban Poor

SUDHIR ALLADI VENKATESH

#### How did you get to know the people living and working underground?

I was researching material for my dissertation on public housing and wandered through the wider African-American community surrounding it. "Bronzeville," as it is known, is the historic area of settlement for black Chicagoans, and it is a vibrant diverse place despite having entrenched pockets of poverty. Because I was spending so much time in public, I naturally met many people using the outdoors for their economic pursuit—car mechanics, drug dealers, gypsy cab drivers, and the like. I was drawn to their world, not only because I was interested in how people live amid poverty, but also because I wondered what happened when the government was not available to regulate economic exchange. I spoke with them about the challenges of running an illegal enterprise, and I observed how residents coped with the ubiquitous presence of an underground economy. That is, I watched the creative ways in which they solved problems, resolved disputes, set prices, and otherwise made sure that their shady dealings did not get out of hand. ...



#### How did your collaboration with Freakonomics author, Steven J. Levitt, influence your work?

I met Steve at Harvard's Society of Fellows, a place dedicated to fostering interdisciplinary dialogue. In our case, the truth was in the packaging. Steve helped me to see the forest for the trees in my work—he allowed me to step outside of the community I was working in and ask broader questions about inequality, human motivation, and the incentives and

costs for certain kinds of action. Up to that point I was largely interested in understanding everyday behavior in highly local places—a housing development, a streetcorner, a gang meeting. Steven helped me to ask bigger questions.

#### Your work brings to light a new world within the city—what are most people missing when they look at the ghetto?

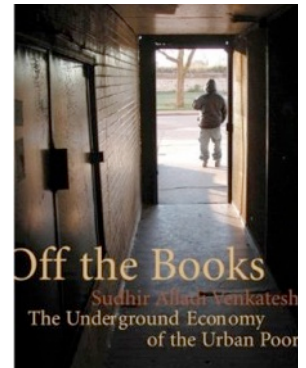
We often fail to acknowledge that people who live in marginality have come to that place from somewhere else—from a life of struggle, success and failure. Americans tend to look at the poor in highly moral, unambiguous terms. We don't see complex individuals struggling to make decisions and live a just life—which is what people in the ghetto are doing, even if it doesn't look the same as most citizens. But, then again, their circumstances aren't the same as most citizens. Second, we tend to think that the government acts the same for everyone, that is, that it is a neutral actor. Alas, for the mass of poor people, the government is not a resource, arbiter, guarantor of person and property, or even a reliable set of agencies who fix streets and pick up garbage. Those living underground fend for themselves because, unlike middle and upper class (and white) residents, government does not work for them.

#### Who was the most surprising member of the underground to you?

The clergy humbled me—and they still do when I watch them. The ghetto preachers who do not have wealthy congregants and large cathedrals not only make do with little—turning an apartment into a place of worship, fixing their storefronts themselves—but they are at the front lines of providing salvation and maintaining social order in the ghetto. It's not easy trying to create stability when people are desperate and struggling. Times get tough, and people act irresponsibly and the preachers are often the ones to keep the peace, console, and make the community move forward. And, they get caught up in the same shady web that captures their congregants, so it's a real feat that they can persist and erect a moral foundation for themselves and others.

#### Were you surprised by the role of police officers in the underground economy?

No, because it is a well established fact in histories of American cities that the policing is always a mixture of stealth, compromise, and heavy handed behavior. Police—the good ones anyway—understand well the forms of criminality and delinquent behavior that cannot be fully eradicated.. People live underground in large part because they are poor: police know that they can't solve poverty, so they have to face widespread hustling. Whether it's the immigrant Italian and Jewish immigrant communities of the early twentieth century or the modern black ghetto, police know that sometimes you can only work to solve problems before they escalate, but that you cannot always prevent the problems from occurring.



[www.reason.com/news/show/36680.html](http://www.reason.com/news/show/36680.html)

#### What Detroit Can Learn From Bangalore

A booming city's lessons for a town in decline

Shikha Dalmia | June 2006 Print Edition

Bangalore, a Third World city beginning with nothing, has experienced meteoric economic growth, while Detroit, once a formidable industrial powerhouse, can't crawl out of its economic rut. If Detroit wants to boom again, it could learn some lessons from Bangalore... [Detroit's] bureaucracy and red tape thwart not only outside developers seeking business in Detroit but an even more critical source of urban vitality: entrepreneurship by city residents themselves. In the name of protecting public health and safety, the city imposes a plethora of licensing requirements and fees on 265 occupations, from street vendors to day care centers. A home-based business needs 70 or so building or equipment permits to get started. Hair braiders have to spend thousands of dollars and 1,500 hours in mandatory training for a cosmetology license. The taxi industry is virtually nonexistent in Detroit, as any visitor who has tried to hail a cab can testify. The city has restricted the number of taxi licenses so tightly that new entrants simply can't get one, even if they can somehow arrange the \$10,000 or so that a license costs on the open market.





[www.downsizinggovernment.org/agriculture/food-subsidies](http://www.downsizinggovernment.org/agriculture/food-subsidies)

## School Breakfast and Lunch Services Supporting Students or Farmers?

Chris Edwards · July, 2009 (excerpt)

*One affirmative case calls for expanding student lunches for those living in poverty.*

The federal government funds school breakfast and lunch programs at 80,000 public schools across the nation. The lunch program covers 30 million children, and the breakfast program covers about 8 million children. Federal spending on the two food programs, which provide free and low-cost meals, was \$16 billion in fiscal 2009.<sup>21</sup>

The programs had their origins in the Federal Surplus Commodities Corporation established in 1935. That entity was designed to distribute “surplus” meat, dairy, and wheat products to the needy, including children in schools. An official history of the school lunch program notes that the farm policies of the 1930s attempted “to remove price-depressing surplus foods from the market” yet goes on to note that “many needy school children could not afford to pay for lunches.”<sup>22</sup> Perhaps it didn’t occur to officials that some children couldn’t afford lunch because the government was pushing up prices by its purchases of so-called surpluses.

The official history notes that prior to the 1930s many local governments had provided food aid to the schools. However, “aid from federal sources became inevitable” because those local governments “could not provide the funds necessary to carry the increasing load.”<sup>23</sup> One reads that excuse for federal intervention frequently—that state and local governments don’t have enough money to fund programs. Of course, the federal government has no funds of its own—it gets all of its money from taxes paid by people who live in local communities.<sup>24</sup>

The modern school lunch program dates to the National School Lunch Act of 1946. The program covered 7 million children in its first year and was expanded to 22 million children by 1970. Congress has occasionally expanded benefits since then, for example, by adding an after-school snack program in 1998. Congress began the school breakfast program as a pilot program in 1966 and made it permanent in 1975.



### Facts About School Lunches

The school lunch and breakfast programs are not just for low-income families. Any child at participating schools is allowed to receive meals under the programs. Those families with incomes below 130 percent of the poverty level receive free meals and those between 130 and 185 percent of the poverty level receive reduced-price meals. Those above 185 percent pay “full price,” but that price is subsidized to an extent. About 58 percent of school lunches are free or reduced price.<sup>25</sup>

Like the food stamp program, the school breakfast and lunch programs were designed to reduce hunger. But society has changed, and today the programs may contribute to the problems of excess weight and obesity of many young people, including those from low-income families.<sup>26</sup>

Like other subsidy programs, the school meal programs are widely abused. A large share of free and reduced-price meals is inappropriately provided to families with incomes above the statutory income cutoffs. Because schools put little effort into verifying recipient incomes, many higher-income parents receive subsidies. Audits have found that about one-quarter of those receiving free and

reduced-cost lunches are not eligible.<sup>27</sup>

The USDA testified to Congress that in 2002 “27 percent more students are certified for free or reduced-price meals than the Census data itself would suggest are eligible.”<sup>28</sup>

The USDA’s inspector general reports that another area of abuse is local school contracting.<sup>29</sup> The food service companies that supply school breakfasts and lunches are prone to inflate expenses and use fraudulent billing schemes in their school contracts.

The bottom line is that local governments have many incentives to maximize the number of school meal recipients and little incentive to reduce waste and abuse. These problems are common in federal subsidy programs for state and local governments, in programs ranging from Medicaid to highway grants. The solution is to end the federal role and revive federalism... • See full article:

[www.downsizinggovernment.org/agriculture/food-subsidies](http://www.downsizinggovernment.org/agriculture/food-subsidies)

#### Footnotes

21. Budget of the U.S. Govt.: Fiscal Year 2010, p. 163.

22. Gordon W. Gunderson, “National School Lunch Program: Background and Development,” U.S. Dept. of Agriculture, Food and Nutrition Service, undated, [www.fns.usda.gov/cnd/Lunch/AboutLunch/ProgramHistory.htm](http://www.fns.usda.gov/cnd/Lunch/AboutLunch/ProgramHistory.htm).

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25. Phylliss Fong, Inspector General, U.S. Dept. of Agriculture, Testimony to the House Budget Committee, July 9, 2003, p.

16, [www.usda.gov/oig/webdocs/FWA%207-7-03.pdf](http://www.usda.gov/oig/webdocs/FWA%207-7-03.pdf).

26. Douglas Besharov, “We’re Feeding the Poor as if They’re Starving,” American Enterprise Inst., Dec. 1, 2002, [www.aei.org/include/pub\\_print.asp?pubID=31](http://www.aei.org/include/pub_print.asp?pubID=31).

27. Phylliss Fong, inspector gen., U.S. Dept. of Ag., Testimony to the House Budget Comm., July 9, 2003, pp. 17-18, [www.usda.gov/oig/webdocs/FWA%207-7-03.pdf](http://www.usda.gov/oig/webdocs/FWA%207-7-03.pdf). See also Ron Haskins, “The School Lunch Lobby,” Education Next, Hoover Institution, no. 3, 2005.

28. Cited in Phylliss Fong, inspector general, U.S. Dept. of Ag., Test. to the House Budget Comm., July 9, 2003, p. 18, [www.usda.gov/oig/webdocs/FWA%207-7-03.pdf](http://www.usda.gov/oig/webdocs/FWA%207-7-03.pdf).

29. Phylliss Fong, insp. general, U.S. Dept. of Agri., Testimony to House Budget Comm., July 9, 2003, p. 20.

# THE AMERICAN

The Journal of the American Enterprise Institute

[www.american.com/archive/2008/january-february-magazine-contents/what2019s-left-for-government-to-do/](http://www.american.com/archive/2008/january-february-magazine-contents/what2019s-left-for-government-to-do/)

## What's Left for Government to Do?

By [Stephen Goldsmith](#)

From the January/February 2008 Issue

**In Indiana**, a million Hoosiers depend on the Family and Social Services Agency (FSSA) for disability payments, food assistance, medical care, and other services. In 2005, Governor Mitch Daniels assigned a daunting task to FSSA Secretary Mitch Roob: reduce the growth of Medicaid by half, fix the struggling welfare agency, and transform its philosophy to one that encouraged self-sufficiency...

Roob and his project manager, Zach Main, visited county offices across the state. Their report to Governor Daniels decried “terrible customer service” in the offices they visited. “Indiana’s neediest citizens, the ones who have the least access to transportation, have to drag along children or leave a job in order to jump through a bunch of hoops to access the system.” Analysts found that citizens in need of the FSSA’s help were forced to make more than two million unnecessary trips a year. Roob and Main had encountered firsthand a broken system in the state’s largest agency—it has 9,700 employees and a budget of \$6.5 billion. ...

Roob then took a critical step—one that is too often overlooked during bureaucratic overhauls. He hired independent third parties to assess the FSSA’s service quality, establish benchmarks for expected performance, and identify organizational risks. A KPMG review exposed what Roob and Main already sensed: caseworkers did not apply eligibility rules in a uniform manner. As Main

later pointed out, the FSSA “had 107 county offices and 107 different ways of doing business. More likely we had 2,200 caseworkers and probably 2,200 different ways of doing business.”

Simply put, Indiana’s government was not very good at providing this important governmental service. And, unfortunately, governments that are not very good at producing public goods are often not very good at the contracting process either. ...

To implement deep changes in the way that the FSSA’s 2,200 caseworkers and 107 county office directors had been doing business for years would require flexibility in the state’s merit worker rules. As written, the rules made changing an employee’s responsibilities extremely difficult. Even if the “new” private hires came from among existing state caseworkers, Roob and Main believed that bringing in a private company would solve the challenge of working around the innovation-stifling rules that applied to state employees.

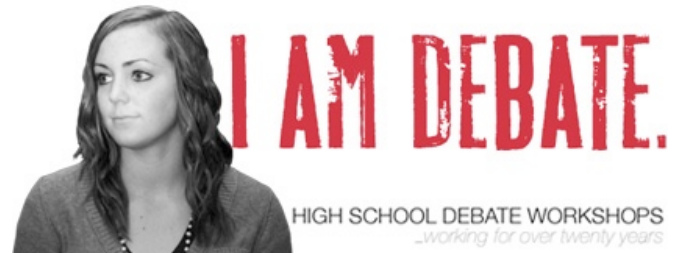
Undertaking a transformation of the agency internally rather than working on it from the outside would have been difficult. Only a strong and experienced management could attempt it, and the FSSA didn’t have one. Its managers consisted primarily of county-office directors who were qualified but had risen through the ranks of the broken system, and its central office was staffed by political appointees who came and went with administrations. The middle management required to implement Roob and Main’s vision simply did not exist. ...

Indiana expects that the modernization will radically improve its ability to reduce mistaken benefit expenditures for ineligible applicants. The resulting savings—plus the fact that the vendor will be responsible for errors in eligibility determinations—mean that the true reduction in costs will be considerably higher. Governor Daniels estimates total

savings will equal \$1 billion over ten years.

While it is too early to determine whether Indiana’s daring plan will succeed in bringing about such substantial cost reductions, saving taxpayers’ dollars cannot be regarded as the sole criterion of success. It will be just as essential for the program to show that a true, effective transformation of government services has been accomplished—an achievement that will provide a blueprint for other public officials as they try to meet escalating demands on resources.

Three emerging developments explain



why now, more than at any other time, we are on the verge of a true transformation of the public sector: digital platforms consolidate important data sources and make them more accessible; private-sector partners, with their experience as network integrators, are more adept than a patchwork of state agencies at meeting the multiple needs of individual clients; and decision-support systems employ algorithms to analyze large amounts of data, helping public employees identify problems and structure individualized solutions.

Aided by a large corporation such as IBM, Indiana will replace its antiquated paper-based system with online capabilities, document processing centers, call centers, and new information-system interfaces. The state will have only one hand to shake if things go well, or, if the modernization goes sour, one neck to wring. Rather than hiring dozens of private and nonprofit agencies to perform the work of over 2,000 caseworkers, support staff, and contractors, the state is contracting with IBM to serve as the integrator of the entire network.

*Stephen Goldsmith, formerly mayor of Indianapolis, is now at Harvard’s Kennedy School*



of Government. This essay was prepared with the help of Tim Burke, policy research coordinator at the Kennedy School of Government. [Excerpted from longer article.] [www.thefreemanonline.org/featured/scratching-by-how-government-creates-poverty-as-we-know-it/](http://www.thefreemanonline.org/featured/scratching-by-how-government-creates-poverty-as-we-know-it/)

## Scratching By: How Government Creates Poverty as We Know It

By Charles Johnson · December 2007 · The Freeman · Volume: 57 · Issue: 10

**Government anti-poverty** programs are a classic case of the therapeutic state setting out to treat disorders created by the state itself. Urban poverty as we know it is, in fact, exclusively a creature of state intervention... Even if absolute *laissez faire* reigned beginning tomorrow, there would still be people in big cities who are living paycheck to paycheck, heavily in debt, homeless, jobless, or otherwise at the bottom rungs of the socioeconomic ladder. These conditions may be persistent social problems, and it may be that free people in a free society will still have to come up with voluntary institutions and practices for addressing them. But in the state-regimented market that dominates today, the material predicament that poor people find themselves in—and the arrangements they must make within that predicament—are battered into their familiar shape, as if by an invisible fist, through the diffuse effects of pervasive, interlocking interventions.

Consider the commonplace phenomena of urban poverty. Livelihoods in American inner cities are typically extremely precarious: as Sudhir Alladi Venkatesh writes in *Off the Books*: “Conditions in neighborhoods of concentrated poverty can change quickly and in ways that can leave families unprepared and without much recourse.” Fixed costs of living—rent, food, clothing, and so on—consume most or all of a family’s income, with little or no access to credit, savings, or insurance to safeguard them from unexpected disasters. ...

The daily experience of the urban poor is shaped by geographical concentration in socially and culturally isolated ghetto neighborhoods within the larger city, which have their own characteristic features: housing is concentrated in dilapidated apartments and housing projects, owned by a select few absentee landlords; many abandoned buildings and vacant lots are scattered through the neighborhood, which remain unused for years at a time; the use of outside spaces is affected by large numbers of unemployed or homeless people.

The favorite solutions of the welfare state—government doles and “urban renewal” projects—mark no real improvement. Rather than freeing poor people from dependence on benefactors and bosses, they merely transfer the dependence to the state, leaving the least politically connected people at the mercy of the political process.

But in a free market—a truly free market, where individual poor people are just as free as established formal-economy players to use their own property, their own labor, their own know-how, and the resources that are available to them—the informal, enterprising actions by poor people themselves would do far more to systematically undermine, or completely eliminate, each of the stereotypical conditions that welfare statist deplora. Every day and in every culture from time out of mind, poor people have repeatedly shown remarkable intelligence, courage, persistence, and creativity in finding ways to put food on the table, save money, keep safe, raise families, live full lives, learn, enjoy themselves, and experience beauty, whenever, wherever, and to whatever degree they have been free to do so. The fault for despairing, dilapidated urban ghettos lies not in the pressures of the market, nor in the character flaws of individual poor people, nor in the characteristics of ghetto subcultures. The fault lies in the state and its persistent interference with poor people’s own efforts to get by through independent work, clever hustling, scratching together resources, and voluntary mutual aid.

### Policies Contributing to Housing Crisis

Progressives routinely deplore the “affordable housing crisis” in American cities. In cities such as New York and Los Angeles,

about 20 to 25 percent of low-income renters are spending more than half their incomes just on housing.

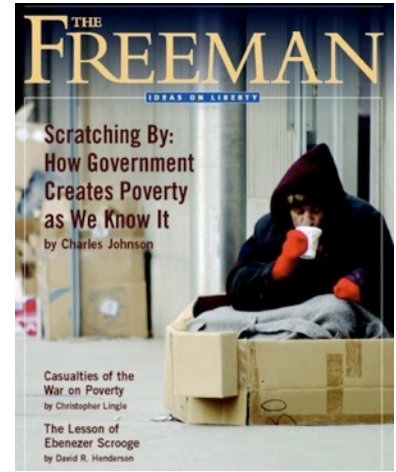
But it is the very laws that Progressives favor—land-use policies, zoning codes, and building codes—that ratchet up housing costs, stand in the way of alternative housing options, and confine poor people to ghetto neighborhoods. Historically, when they have been free to do so, poor people have happily disregarded the ideals of political humanitarians and found their own ways to cut housing costs, even in bustling cities with tight housing markets.

One way was to get other families, or friends, or strangers, to move in and split the rent. Depending on the number of people sharing a home, this might mean a less-comfortable living situation; it might even mean one that is unhealthy. But decisions about health and comfort are best made by the individual people who bear the costs and reap the benefits. Unfortunately today the decisions are made ahead of time by city governments through zoning laws that prohibit or restrict sharing a home among people not related by blood or marriage, and building codes that limit the number of residents in a building.

Those who cannot make enough money to cover the rent on their own, and cannot split the rent enough due to zoning and building codes, are priced out of the housing market entirely. ...

### Poor Shut Out by Regulations

Beyond the government-created black market, there are also countless jobs that could be done above-ground, but from which the poor are systematically shut out by arbitrary regulation and licensure requirements. In principle, many women in black communities could make money braiding hair, with only their own craft,



word of mouth, and the living room of an apartment. But in many states, anyone found braiding hair without having put down hundreds of dollars and days of her life to apply for a government-fabricated cosmetology or hair-care license will be fined hundreds or thousands of dollars.

In principle, anyone who knows how to cook can make money by laying out the cash for ingredients and some insulated containers, and taking the food from his own kitchen to a stand set up on the sidewalk or, with the landlord's permission, in a parking lot. But then there are business licenses to pay for (often hundreds of dollars) and the costs of complying with health-department regulations and inspections. The latter make it practically impossible to run a food-oriented business without buying or leasing property dedicated to preparing the food, at which point you may as well forget about it unless you already have a lot of start-up capital sitting around.

**Transportation services for & by the poor**

Every modern urban center has a tremendous demand for taxi cabs. In principle, anyone who needed to make some extra money could start a part-time "gypsy cab" service with a car she already has, a cell phone, and some word of mouth. She can make good money for honest labor, providing a useful service to willing customers—as a single independent worker, without needing to please a boss, who can set her own hours and put as much or as little into it as she wants in order to make the money she needs.

But in the United States, city governments routinely impose massive constraints and controls on taxi service. The worst offenders are often the cities with the highest demand for cabs, like New York City, where the government enforces an arbitrary cap on the number of taxi cabs through a system of government-created licenses, or "medallions." The total number of medallion taxis is capped at about 13,000 cabs for the entire city, with occasional government auctions for a handful of new medallions. The system requires anyone who wants to become an independent cab driver to purchase a medallion at monopoly prices from an existing holder or wait around for the city to

auction off new ones. At the auction last November a total of 63 new medallions were made available for auction with a minimum bidding price of \$189,000.

Besides the cost of a medallion, cab owners are also legally required to pay an annual licensing fee of \$550 and to pay for three inspections by the city government each year, at a total annual cost of \$150. The city government enforces a single fare structure, enforces a common paint job, and now is even forcing all city cabs to upgrade to high-cost, high-tech GPS and payment systems, whether or not the cabbie or her customer happens to want them...

The practical consequence is that poor people who might otherwise be able to make easy money on their own are legally forced out of driving a taxi, or else forced to hire themselves out to an existing medallion-holder on his own terms. Either way, poor people are shoved out of flexible, independent work, which many would be willing and able to do using one of the few capital goods that they already have on hand. Lots of poor people have cars they could use; not a lot have a couple hundred thousand dollars to spend on a government license.

Government regimentation of land, housing, and labor creates and sustains the very structure of urban poverty. Government seizures create and reinforce the dilapidation of ghetto neighborhoods by constricting the housing market to a few landlords and keeping marginal lands out of use. Government regulations create homelessness and artificially make it worse for the homeless by driving up housing costs and by obstructing or destroying any intermediate informal living solutions between renting an apartment and living on the street. And having made the ghetto, government prohibitions keep poor people confined in it, by shutting them out of more affluent neighborhoods where many might be able to live if only they were able to share expenses.

**Pushing Costs Up & Opportunities Down**

... A truly free market, without the pervasive control of state licensure require-

**Institute for Justice**  
Litigating for Liberty

**Washington DC Hair Braiding**  
*Taalib-Din Abdul Uqdah v. District of Columbia*  
**IJ Frees D.C. Hairbraiders from a Tangle of Regulations**

The Institute for Justice represented Taalib-Din Abdul Uqdah and his wife Pamela Ferrell in their successful challenge to the 1938 Cosmetology Code of the District of Columbia. For more than a decade, Uqdah, the owner of a successful African hair-braiding salon, Cornrows & Co., was harassed by the unelected Board of Cosmetology of the District of Columbia, which wanted to impose the antiquated Cosmetology Code on Uqdah's business, even though the practices and techniques contained in the 1938 cosmetology statute have nothing to do with and are in fact diametrically opposed to the centuries-old art of African hairstyling.

As a result of the lawsuit, the District of Columbia government deregulated its cosmetology industry allowing hairbraiders to practice their craft without unnecessary or intrusive government regulation.

13 client Taalib-Din Abdul Uqdah

ments, regulation, inspections, paperwork, taxes, "fees," and the rest, has much more to do with the traditional image of a bazaar: messy, decentralized, diverse, informal, flexible, pervaded by haggling, and kept together by the spontaneous order of countless small-time independent operators, who quickly and easily shift between the roles of customer, merchant, contract laborer, and more. It is precisely because we have the strip mall rather than the bazaar that people living in poverty find themselves so often confined to ghettos, caught in precarious situations, and dependent on others—either on the bum or caught in jobs they hate but cannot leave, while barely keeping a barely tolerable roof over their heads.

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