

## ECONOMICS U\$A LESSON #24

(MUSIC PLAYS)

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Stasio: Economics U\$A. One of a series of programs designed to explore Twentieth Century micro and macro economic principle. The subject of this edition is Reducing Poverty. Our guest is Jodie Allen, former welfare planner in the Nixon and Carter Administrations. I'm Frank Stasio.

Roosevelt: If I feed one-third of a nation, ill-housed, ill-clad, ill-nourished.

Stasio: President Franklin Roosevelt made that observation during the middle of the Great Depression, but poverty did not begin in the nineteen thirties. Human history is a chronicle of insufficiency. In almost every society throughout time people have had to struggle to make their resources meet their needs. While poverty is an old story, it was repeating itself in a new era. It was a sense of unbounded optimism that had developed in the early part of the twentieth century, which set it apart from the centuries that had gone before. By the late twenties, business leaders and policymakers had come to expect greater economic improvement for themselves and future generations. Those expectations were bloated by the fabulous economic growth in the nineteen twenties. But when the market crashed in nineteen twenty-nine, the bubble suddenly burst, making the poverty of the thirties an even more bitter experience. Until the Great Depression,

helping the poor was left mainly to religious orders, private benefactors and state and local governments. Government assistance went primarily to widows and orphans and came exclusively from states and localities. But now greater numbers of people began looking to the federal government as a source of help. Plans were proposed both in and out of government to guarantee every American a minimum income and offer extra assistance to the elderly. In the extreme, Louisiana Senator Huey Long proposed that each family be guaranteed a healthy income, a house, a car and a radio. The plan was never adopted, but this and other proposals to redistribute wealth, guarantee income show how wide the belief had spread that Americans deserve protection from desperate poverty. And public pressure did result in passage of America's first nationwide Social Security Act. The main provision of the Act established the Social Security System.

Cohen: In my opinion the Social Security Act, whatever its limitations to how, was the most important long-range change in social policy in the United States of that period.

Stasio: Wilbur Cohen is a Professor at the Lyndon Johnson School of Public Affairs at the University of Texas and one of the designers of Social Security.

Cohen: What we were trying to do is to provide what we would now call "a safety net." The Depression had created a situation in which people who had been independence, who had saved money, who had tried, were hardworking, had lost through the stock market and through the decline and the values of agricultural land, through the Dust Bowl, the Oakies and so on. The whole conglomerate of things that occurred between nineteen twenty-nine, nineteen thirty-four, lost everything and very independent, self-respecting, dignified people who never thought that they would be welfare recipients. And the

devastating impact of that meant that they were falling through the whole economic system. And I think what Roosevelt and Miss Perkins and Hopkins finally had is some kind of a safety net underneath this and that was their concept of Social Security.

Stasio: Social Security was designed as an insurance program to give all Americans some income when they reached old age. Another social welfare program begun in the Depression was Aid to Dependent Children, later changed to Aid to Families with Dependent Children, or AFDC. Under the program, single mothers who head the household receive a monthly cash payment from the government. It was designed to assist women and children when the male wage earner died or deserted the family. For many years, AFDC provided benefits to needy mothers without creating much controversy. But by the mid nineteen sixties, it was apparent that the program had some problems, not least of which was that it seemed to contribute to the breakup of families. Daniel Patrick Moynihan, while he was a professor at Harvard, was one of the first to point out the problem.

Moynihan: Welfare System seemed to be an incentive to dependents. It was the only explanation that was sort of generally available to the great explosion of the welfare population. It seemed to be an arrangement which induced the behavior that it in turn produced and this was a, led to a general feeling, there must be a better way.

Stasio: Naturally the designers of AFDC did not want federal dollars sent to people who didn't need the help. So mothers who had jobs lost welfare benefits equal to their earnings, but this was a costly catch in the AFDC Program. The potential for huge benefit reductions created a powerful disincentive for assisted mothers to find jobs.

Female Voice : I had to save because I used to work with the city hospital and I get sick and I have to become on a welfare. Now I'm getting a lot of trouble to get my check and I have a little boy to take care, too.

Stasio: By the late nineteen sixties, pressure was building across the political spectrum to reform the Welfare System. When Richard Nixon was elected President in nineteen sixty-eight, he made Welfare Reform a top priority. In August of the following year, he announced the Family Assistance Plan.

Nixon: I, therefore, propose that we abolish the present Welfare System and that we adopt in its place a new Family Assistance System and a basic federal minimum would be provided, the same in every state. For a family of four now on welfare with no outside income, the basic federal payment would be sixteen hundred dollars a year.

Stasio: One of the plan's principle architect was Nixon's Assistant Health, Education and Welfare Secretary, Jodie Allen. Allen, who later worked as a welfare planner for President Jimmy Carter, says the Family Assistance Plan was not new, but she says Nixon was far more receptive to the approach than the preceding Democratic Administrations.

Allen: It had a different, or should have had a different constituency from the more traditional welfare approaches. Those that had been the ones that interested the Democrats traditionally had focused more on the current welfare population, the female head of the family, which had come to dominate the roles. The whole idea behind the Family Assistance Plan was that there was an equal number at that time of working poor families, two-parent families and we hope, hope wise that if you assisted these families

on an equal basis, with one-parent families, not only would that be fairer, but that perhaps they might be able to stay together, be more stable, functioning families. You might avoid a certain amount of chronic dependency.

Stasio: The original Family Assistance Plan would have guaranteed every American family an income of sixteen hundred dollars. So if a family had no income it would receive sixteen hundred dollars a year from the government. As family income rose, federal benefits were reduced, but not dollar for dollar. To keep an incentive to work, families lost only fifty cents' worth of benefits for every dollar of extra income. The plan was based on a concept called, "the negative income tax."

Allen: The idea is that at the moment of course we have a tax system that in which the liability gets smaller and smaller as income is...is reduced. And at some point there's no net liability at all. However, below that point, that is to say below the entry point into the positive income tax system, at the moment many families while they don't pay taxes, don't get any help. And it's sort of a conceptual extension to say, "well, if people above that level can begin to pay small amounts of taxes, people below that level begin to need small amounts of help to get by." It's a very conceptually interesting idea. Many of the early tax, flat tax schemes for example, had a negative payment at the bottom extending up at a flat rate into the positive range.

Stasio: With the exception of AFDC, social welfare programs did not offer cash payments. Instead, they subsidized goods and services like food, housing and medical care. Critics charged that such payments were patronizing, inefficient. The negative

income tax is attractive because it gives poor families cash and let's them spend the money the way they see fit. Daniel Moynihan.

Moynihan: The first person to espouse a negative income tax was Milton Friedman of the University of Chicago, a very conservative as he would profess to tell you, an economist. He thought it was a solution to the too-complicated mix of jumbled of social welfare programs. He said, "have one program. If people are poor, there's a" wasn't mean to be poor, mean to say, "he don't have enough money. Give 'em money. Give 'em income. Let them live their own lives."

Stasio: Jodie Allen said the Family Assistance Plan was designed to shift the emphasis away from services over to income, but the new approach drew fire from all sides.

Allen: This was not a service strategy. This was an income strategy and that became the buzz word at the time that you would maximize welfare in the economist parlant by giving people money and letting them choose what to do with this. Now of course you can see right away that runs up against strongly-held beliefs on both the right and the left. On the right, they don't like the idea of letting these people choose since they strongly suspect that they will use it for, you know, wine, women and song. On the left, there is the well-meaning and sometimes misguided impulse to...to help people. Listen we can help them better than they can help themselves because we can provide them with better guidance.

Stasio: In fact even though the Family Assistance Plan seemed like it might solve many of the most difficult problems in the social Welfare System, it attracted very little

support. Conservatives were troubled by the cost. The Family Assistance Plan would add many more people to the welfare roles.

Allen: In those days it was much, much talk about the welfare mess and this was the years of soaring caseloads. Actually, they...they've leveled off all by themselves a couple of years later, but it was perceived to be a crisis and the contradiction of the Family Assistance Plan was that in response to what was at least perceived to be a public outcry to do something about the welfare mess, the answer was, "oh, we've got just the medicine here. And what it is, is we'll double the welfare roles." And this was not a very salable point of the Family Assistance Plan.

Stasio: But conservatives weren't alone in their objections to the new proposal.

Allen: The idea of extending benefits to a whole new group of people, the working poor, came in conflict with the desire to channel dollars into other directions, given the dollars are limited in some sense. Any dollars you spend on the working poor meant that they were not dollars available for two other purposes. One was to raise benefit levels for current welfare recipients, primarily female heads of family and secondly, to provide fiscal relief for states. Remember at this time the big states were being severely pressed by the cost of welfare and they very much wanted some federal help.

Stasio: By allowing the working poor to receive assistance and reducing their benefits by less than the full amount of their income, the government would spread its total welfare allocation across a greater number of people. As a result, even with a total spending increase proposed under the Family Assistance Plan, single mothers already on welfare would receive smaller increases and in some cases, cuts in their benefits. Also, working

families below a certain income level, would not have to pay taxes on the first seven hundred twenty dollars of income. And after that only half of their income would be subject to taxes. This is sometimes called, “putting money in the tax rate.” This, too, would raise the cost of adding the working poor to the welfare roles. Because of the general political climate and the growing welfare caseload, it was clear that the government was going to have to increase welfare spending. So the debate over the Family Assistance Plan centered on whether Congress should broaden the welfare base by including working poor families, or increase the basic benefit for those already on the roles.

Allen: It’s important to remember that George Shultz was the Secretary of Labor at the time that this plan was being put together. And he exerted a very important influence on the decision to put relatively more money into the tax rate as we said, than into the guarantee. Why he’s talking about putting money into the tax rate is that the lower the benefit reduction rate, the more gradually you reduce benefits, the higher the eligibility limit. Hence, the more people are eligible, for some even though small amounts of help. So it costs you money to provide working centers. The key decision is, you know, you’re not going to let people starve in this country. So that, you know, the sort of a Charles Murray notion that you .... close the Welfare Office and everything will be fine, is just not really a relevant consideration. The real question is, “how can you help these people in a way that doesn’t discourage them from helping themselves?” That’s the real trick and the question is how much money you put into basic guarantees as against gradual reductions of benefit.

Stasio: Leading the attack against the Family Assistance Plan were the states, particularly big states like New York, California and Michigan with growing caseloads and generous welfare programs. Under something called, “a matching formula,” the federal government paid at least half of the states’ AFDC benefits. The states wanted Washington to increase its share of the welfare burden.

Allen: If you took away the old matching formula and instead just said, “well, the federal government’s going to pay the first sixteen hundred dollars and states can then supplement above it.” Well, in simplest terms if a state had had a welfare guarantee that was more than twice the family rate, if they had a welfare guarantee of, well, nobody did, but if they had a welfare guarantee of thirty-five hundred dollars and had been getting fifty percent matching on that and now they were only going to get sixteen hundred dollars in federal, they would actually lose money. And there were all these peculiar case uh, crossings depending on how much earnings and how many work-related expenses that people had to, that the whole fiscal relief figuring out whether the states were going to save money, turned out to be a major item, which we starry-eyed performers initially had not thought irrelevant, but hadn’t thought of as being at the core of the whole thing. And of course it turned out when we went up to the Hill and we made the case through the Carter Welfare Reform, fiscal relief for the states was the tail that wagged the dog. Everybody wants to help the poor footnote, but help the governments first.

Stasio: The Family Assistance Plan was in trouble. While the program seemed to make sense in a general way, it was hardly an interest group or constituency in the country that didn’t find a fatal flaw in its detail. Jodie Allen says she and her staff jokingly tried to come up with a name for the plan that might increase its appeal.

Allen: We had something that went like this originally. It was called, “The Honest Christian Working Men’s Rivers And Harbors, Veterans, Family Assistance Act Of Nineteen Sixty-,” what year was that, “eight.” We tried to, we were trying to get as popular a name as possible, realizing that we were dealing with a very unpopular subject.

Stasio: Allen and her staff knew that it would take more than a new name to get the Family Assistance Plan through Congress. In fact the original proposal went through a number of changes, aimed mostly at bringing down the total welfare cost. A compromised plan proposed two major changes. First, it would cash out food stamps. That is eliminate the program and channel its one and a half billion dollar budget into Family Assistance benefits. Second, it would require poor families to pay more taxes than originally proposed.

Allen: In the original plan families got both the basic income guarantee and then they got some amount of food stamps to supplement it. The two together were quite a decent income, but no one originally paid much attention to food stamps because food stamps had not been a national program at that time. And to the administration’s, the Nixon Administration’s great credit, with prompting from Congress of course, in the meantime while we were arguing over that, food stamps went nationwide. Now it took it a while to build up. It took a few years for it really to begin serving all the poor, but at least in conceptually it had become a very important guarantee, especially for working-poor families. Because food stamps unlike every other welfare program in the United States does not discriminate on the basis of family type, which is one of its great strengths. It says, you know, everybody needs to eat whether they have kids or not, whether they have a husband or not. If their income is low, they need help, but here was a program that we

could see was going to get to be fairly expensive. And we were looking for ways to provide more help primarily to state and local governments without increasing the total cost of the plan. And the eye inevitably fell upon this food stamp program and the solution that we came up with was to cash food stamps out. And instead of giving families this federally-paid for food stamp guarantee, they used that federal money instead to beef up the basic grant for family assistance, the cash grant and at the same time to taper the benefits off, more quickly. That is to increase the benefit reduction rate, the so-called tax rate so that the benefits would cut out at a lower level in the income distribution and we proposed to do both of those things in order to address the concerns of mayors and, well, primarily the Mayor of New York City. Most other mayors didn't contribute. Welfare generally is paid for by states, but in New York the city makes a major contribution. And so the Mayor of New York played a big role in all this and all the other big states were pushing for fiscal relief. This was a way of addressing that concern.

Stasio: After all of the tinkering, the Family Assistance Plan had lost the provisions that once made it a true reform package. It was no longer a family program and ultimately the work incentives were seriously deluded. In spite of efforts to make the program palatable to its many critics, the plan failed in Congress. How important is it that a Welfare System have a built-in work incentive?

Allen: It would depend on where you're starting from. If you were going into a country in which there were no welfare programs at all, your first, and there were people starving in the streets, your first concern would be to stop them from starving in the streets. And so you would, all your focus would be on the basic benefit and is it adequate and

whatever. Now when you're working in environment in which there is also already welfare and food stamps and Medicaid, your concern is different at that point. You're trying to think, where shall I put my next dollar? And should I put it into making this basic guarantee higher or should I put into providing some supplementation for people who are working and who may very well be worse off than people who are not working, which strikes you as unfair and poor social policy. So that the interest in tax rates as I was suggesting on...on my analysis of the food stamp thing, hasn't necessarily so much to do with work incentives. It does, but it also has to do with fairness. How you think. Is it fair for people who work to be worse off than people who don't work? And low benefit reduction rate has not only the effect of providing better work incentives, it also means that the benefits extend to these people slightly higher in their earnings distribution, but whose total incomes may actually be lower than if they were on welfare. I think that that's a legitimate fairness concern as much as it is a work incentive question. But you can't answer that question in the abstract, as to whether your next dollar should go essentially into the basic benefit or into the benefit reduction rate, unless you look at where you are in terms of programs and also in terms of people. How many people are out there? Where are they? How are they getting along now? Who seems to be in the worst health? It's not an easily-answered question. It is the question in Welfare Reform.

Stasio: In developed countries like the United States which already have some sort of social welfare program, an important question is, "how do you define poverty?"

Allen: In counting who is poor, rather than the poverty line itself, we frequently disregard, we typically disregard the value of so-called in-kind benefits, non-cash benefits, things like medical assistance or housing aid or whatever. And that's a mistake.

You want to count those things to the extent you can, as long as you don't overvalue them. It's very easy to overvalue them, especially if most of the money is going to a doctor rather than to the person. It's very easy for the government to pay out something that's paid twice or even ten times as much as the thing is actually worth to the person. So the, it's a fair criticism that we overmeasure the number of people in poverty, but the standard that we use for deciding what is poverty, is quite clearly at fault from the other direction. It's too low. We never had a decent poverty standard with Morin Oshinsky who is the grand old lady of...of poverty measurement, made it up pretty much off the top of her head, taking a basic food diet and taking a multiple of that. It's never been improved or adjusted. So you ought to do both things. You ought to have a better poverty standard. We use exactly the same mechanism now as we did then, except we've adjusted it for inflation, so the same poor standard. On the other hand you ought in accounting whether a person is poor enough to take account of their, to the extent you can of their full range of resources. And indeed when I was at mathematic after leaving the government, we did the first study, the first complete study that attempted to take account of all these other kinds of income. We did it for the Congressional Budget Office.

Stasio: Did you find, I mean, did you come up with different numbers of poor people?

Allen: Sure, we came up with a considerable reduction in the number, especially elderly poor.

Stasio: The debate over welfare spending is complicated because policymakers must weigh economic decisions based on limited resources against the moral and ethical foundations which underlie the nation's government. Very often the resulting

compromise pleases almost no one. Now we'll look back at some of the main points in our discussion about reducing poverty. Until the nineteen thirties, assistance to the poor was provided by private benefactors, religious groups and state and local governments. During the Depression the federal government began its first social welfare program. Aid To Dependent Children, later called Aid to Families with Dependent Children, or AFDC, was designed to help needy, single mothers and their children. By the late nineteen sixties, critics charged that AFDC promoted the breakup of poor families and discouraged single mothers from finding jobs. The Nixon Administration tried to answer those and other complaints about the Welfare System by designing the Family Assistance Plan. The plan would have eliminated most government-subsidized services and instead made cash payments to poor families. It was based on a concept called, "the negative income tax," which proposed that families making below a certain income would receive money from the government. And those above that rate, would pay taxes. Negative income tax offers payments and collects taxes on a sliding scale to eliminate the work disincentive built into the existing system. That disincentive was created by a sharp reduction in benefits after a family had reached a certain income level. The Family Assistance Plan would also expand the welfare roles to include male-headed households. In this way, the Nixon Administration hoped to eliminate the incentive for families to break up. The plan was resisted by a number of politically-diverse interest groups. Liberals and welfare recipients felt that cash payments proposed in the plan were too low. They were concerned that broadening the base of the welfare roles would further reduce benefits to those already receiving help. Conservatives thought the total cost of the program was too high. Meanwhile the states were looking for the federal government to

put more money into AFDC. They, too, opposed adding new categories of families to the Welfare System. While the Family Assistance Plan was never approved as a whole package, many of its most appealing provisions have been adopted by the federal and state governments. Many experts believe that the way poverty is defined is inadequate because of the difficulty in determining the value of in-kind services and other assistance given to the needy and because of the standard measures of poverty, which may underestimate the real cost of providing for a family's needs.

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Stasio: You've been listening to Economics USA, one a series of programs on micro and macro economic principle. Our guest was Jodie Allen, former welfare planner in the Nixon and Carter Administrations. Economics USA has been produced by the Educational Film Center in Annandale, Virginia. I'm Frank Stasio.

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