

ECONOMICS U\$A
Program #124
“Reducing Poverty: What Have We done?”

Learning Objectives

PURPOSE:

This segment examines some of the causes of differences in income, and also describes and analyzes some of the government policies which attempt to reduce poverty.

OBJECTIVES:

1. To make the viewer aware of the two basic types of government programs, those that seek to reduce the causes of poverty (such as training and education programs, antidiscrimination policies, the prevention of unemployment or disability, day care, and other programs), and those that reduce the symptoms of poverty (such as social security, insuring unemployment and disability, welfare, medicare, public housing, food stamps, etc.).
2. To show how the Social Security program is designed, how it developed from an insurance program to a transfer programs, and how it helped to reduce poverty.
3. To show the goals and problems of job training programs for the poor.
4. To show that in-kind benefits are not as economically efficient for the individual as cash benefits, but they promote the consumption of merit goods.
5. To show that programs that attempt to create a more equitable distribution of income often have harmful unintended effects because of hidden incentives and disincentives (e.g., breaking up families, high implicit marginal tax rates).

KEY ECONOMIC CONCEPTS:

AFDC	transfer payments
discrimination	means tests
investment in human capital	marginal tax rate
cash vs. in-kind transfers	social insurance programs
negative income tax	
disincentives to work	

ILLUSTRATIVE EVENTS:

1. the creation of the Social Security System
2. the Nixon Administration’s effort to pass the Family Assistance Plan.
3. the establishment of the Jobs Corps.

Program Transcript
(Revised 3/4/03)

Annenberg/CPB Project (Logo and Music)

TEASER

(Music plays)

DAVID SCHOUMACHER: The Depression. Many elderly Americans were too old to work...Pensions were non-existent, savings gone. What was Franklin Delano Roosevelt's answer to the needs of older Americans? Too many young people were untrained, uneducated and unemployable...How could they get a place at the economic starting line?

Welfare reform. After sixty years of guaranteeing benefits to welfare recipients, the Federal Government wants them to go to work. Has the new policy succeeded?

We are the richest, most prosperous nation on Earth. Yet, in the midst of plenty...great disparities in wealth. Reducing Poverty: What Have We Done? With the help of economic analyst Richard Gill we'll investigate that question on this edition of Economics USA. I'm David Schoumacher.

(Music plays – Opening Credits)

Reducing Poverty: What Have We Done?

PART I

DAVID SCHOUMACHER: There have always been people left out of the American dream...the young, the old, the ill, the untrained...and those who've just lost out in a competitive economy which has losers as well as winners. Today we take it for granted that the government has a role to play in reducing poverty

and we argue only about how and how much. But before food stamps and public housing...before government aid to the elderly...what happened when the elderly faced the Great Depression?

FDR: "I'll see one-third of a nation ill-housed, ill-clad, ill-nourished..."

DAVID SCHOUMACHER: The Great Depression cut too wide and too deep for business-as-usual. The Depression demanded new answers to poverty. No group suffered more than the elderly. Savings accounts were wiped out, pensions were rare, family resources--gone. The needs of the elderly have always carried a special urgency. Not everyone will become unemployed or disabled, but we will all get old. How could Depression America protect its citizens from the hazards of old age? Americans looked to their President...

FDR: "We are determined to make every American citizen the subject of his country's interest and concern. The test of our progress is not whether we add more to the abundance of those who have much...It is whether we provide enough for those who have too little."

DAVID SCHOUMACHER: FDR's first hundred days were a whirlwind of industrial reorganization and job creation...the NRA, the WPA, the PWA...but for those too old to swing a pick or a handle a shovel, the Depression continued full force. Extreme trouble made people ready to listen to extreme solutions.

(AUDIO CLIP COGLIN SPEECH) "I ask you..."

DAVID SCHOUMACHER: Detroit priest Charles Coughlin preached a gospel of Anti-Semitism and easy money to millions of radio listeners.

(AUDIO CLIP LONG SPEECH)

DAVID SCHOUMACHER: A Louisiana Governor, later Senator Huey Long, wanted to soak the rich and give pensions to the elderly. And every family a house, a car, a radio and \$5,000 a year.

A California doctor, Francis Townsend, wanted the government to give everyone over 60 two hundred dollars a month. The Townsend Plan, like the Long and Coughlin schemes, was wildly impractical... Astronomical taxes would have been needed...taxes a depression-burdened America could never have paid. But FDR's plan, Social Security would pay for itself. Employers and employees would contribute to a pension fund. Social Security would be a national insurance policy for future generations of senior citizens, payable upon retirement. Even FDR's relatively modest Social Security...monthly benefits started at just \$10...met powerful opposition. Senator Huey Long thought the benefits were too low. He didn't think the employees should have to pay anything in. Republican Presidential candidate, Alf Landon, blasted Social Security as the biggest tax increase in history. FDR put all his prestige and popularity behind the Social Security bill...

FDR: "Seems to me that if the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this security bill, Social Security Act, the session would be regarded as historic for all time."

DAVID SCHOUMACHER: FDR was riding a crest of desperation and hope. Social Security rolled through Congress and on to the White House.

FDR: "This Social Security measure gives at least some protection to 50 millions of our citizens..."

DAVID SCHOUMACHER: Why an insurance plan? Why not a tax and paid benefits to the needy? Wilbur Cohen, Secretary of Health, Education and Welfare in the 60's, was one of the team of social economists that helped FDR shape Social Security...

COHEN: "I think he ...I think Roosevelt clearly saw 50 years in the future that there might be a president sometime who'd want to cut-back on the safety net, and one of the ways to prevent that in Social Security was to make the individual and the employer pay for it."

DAVID SCHOUMACHER: Did you ever hear him express it?

COHEN: "He said it in these kind of words: 'No damned politician will ever be able to take it away from them.'"

DAVID SCHOUMACHER: Social Security has played a crucial part guaranteeing a secure and dignified retirement for millions of older Americans. Poverty still exists among the elderly, but being old is no longer synonymous with being poor. We asked economic analyst Richard Gill to explain the economic thinking behind Social Security.

(MUSIC PLAYS – COMMENT AND ANALYSIS)

Economics USA LOGO

RICHARD GILL: Our Social Security program is a bit like God, country and Yale. You have to be for all of them (well, perhaps not Yale), but you have the feeling that they all work in rather mysterious ways. The reason we're for Social Security is that it has, in fact, achieved its central purpose: providing for the needs of the elderly. Poverty among our senior citizens, a deep concern in the 1930's, has been substantially reduced in the present day. The reason Social Security seems mysterious is really twofold. First, the system doesn't work at all in the way we were taught to believe it would. The idea seemed to be that an average citizen...let's call him Peter...would deposit his and his employer's payroll taxes in a fund which would keep growing over the years; at retirement, this same Peter would use these accumulated funds to live on. In fact, the way it works is that young Peter pays into a fund which is immediately used to pay the already elderly Paul. The notion of an accumulating trust is largely a myth. The program is, in fact, a classic case of what economists call a "transfer program." The

younger generation is transferring income to the older generation in return for a “promise” that the next group of young people will treat them in the same way. The second mysterious thing...at least the founders of the program would have found it mysterious...is how the Social Security system could have gotten so huge. Social Security outlays, now including Medicare, totaled \$236 billion in 1984, a threefold increase in just ten years. And this growth will seem like peanuts when, a couple of decades down the road, the baby-boom generation begins to retire. We get better medical care now: we live much longer; we are actually retiring earlier than we used to; and, before too long, there will be many, many more of us to retire. To generalize: Social Security is a successful system. It’s a much bigger system than was ever foreseen. And it’s a different system from what it appears to be. It’s a transfer program, and, like all transfer programs, as we shall see, it involves certain problems.

PART II

KENNEDY: “Let the word go forth from this time and place to friend and foe alike...that the torch has been passed to a new generation of Americans...”

DAVID SCHOUMACHER: The “New Frontier”...a time of hope and a time of optimism...

SHRIVER: “We stood astride in the world...We were it... and the people who participated in that era, from Roosevelt right on up to Kennedy, were people who felt terrific self-confidence and terrific elan and terrific spirit...They felt that there was a chance that whatever they wanted to do...they would do it.

KENNEDY: “All this will not be finished in the first one hundred days...nor will it be finished in the first 1000 days...nor in the life of this administration...nor even perhaps in our lifetime on this planet, but let us begin.”

DAVID SCHOUMACHER: Sargent Shriver, John Kennedy’s businessman brother-in-law, had been the first head of the Peace Corps. And when Kennedy’s

successor, Lyndon Johnson, declared war on poverty, Sargent Shriver was placed in command.

SHRIVER: “Johnson was interested in it because Johnson had experienced poverty himself. So he was always talking about the fact that people like himself would not have been successful without the help of government and he wanted to do similar things for young people while he was President of the United States.”

DAVID SCHOUMACHER: At the root of poverty, many felt, was unemployment. Training, early training would mean employment and income...and an end to poverty. How could the “New Frontier’s” confidence and the Great Society’s dedication uproot poverty?

SHRIVER: “Well, I always said to myself...the only way you can do it is to set up a residential place where you have total control over these youngsters for a period of time...just the way you send these youngsters for a period of time...just the way you send youngsters to West Point or Annapolis, and pay for it. We should send these young people to a different type of institution, and pay for it. And I tried to do that when I was the President of the Board of Education in Chicago, but I came to Washington too soon to bring it off and, when I got the job running the war against poverty, I said here is the chance.”

DAVID SCHOUMACHER: They say that there are two things you can do for someone who’s hungry...You can give him something to eat or you can teach him to fish. You might say that the Great Society started the Job Corps as a set of “fishing lessons.” More than 600,000 people completed Job Corps training in its first 20 years. Ninety percent of them, government statistics showed, found jobs. San Antonio businessman, Gil Puente, an alumnus of the Gary Job Corps Center outside of Austin, Texas, was one...

PUENTE: “Of course being a school dropout...the only work I used to do was a migrant worker...you know... Some of my friends that had been in school with

me and they had dropped out of school and they had joined Job Corps. I said, Wow, if these guys made it...I can make it too. I was there for one purpose, to gain a skill...a vocation...learn a trade...so after being there 16 months at the Gary Job Corps Center, I graduated as a auto mechanic, I got my gold seal, you know, my GED and it was real exciting for me. So to me it was like...here it is on a silver platter...What are you going to do with it? I got a job...I got hired...and I was there for almost 10 or 11 years, but I felt like...I think it's time for me to just quit and start on my own...my own business. I started rebuilding compressors...Slowly the business started picking up and my dream was coming true...and maybe if it wasn't for the Job Corps I'd be back in my hometown... maybe not there, but in jail or maybe, you know, the easy life. I'd probably be involved in drugs and no telling what would have happened to me.”

DAVID SCHOUMACHER: Job Corps supporters could point to many success stories like Gill Puente's, but 20 years after John F. Kennedy, a new crusade came to Washington, led by Ronald Reagan.

REAGAN: “I aim to try and tap that great American spirit that opened up this completely undeveloped continent from coast to coast and made it a great nation.”

DAVID SCHOUMACHER: John F. Kennedy and Lyndon Johnson had called on the government to help those in need... Ronald Reagan called on the government to get out of the way so people could help themselves. Reagan Administration Budget Director, David Stockman, told Congress that the Job Corps had flunked the “cost/benefit” test...Too much cost...not enough benefit. The cost, \$15,000 a slot he said...more than a Harvard education.

SHRIVER: “It made me laugh to see David Stockman resurrecting that old canard this year as a justification for closing up the Job Corps. That was all discussed back in the 60's. The fact is it's not true. The actual course costs, the entire Job Corps operation, per enrollee, about 6000 bucks. That's a lot of money...I'm not trying to minimize it...but the question is...is it better to spend

\$6000 to transform that young man or woman and turn them into a taxpayer or to leave them alone, save the \$6000 and then spend \$26,000 or \$46,000 a year taking care of them in jail.”

DAVID SCHOUMACHER: Job Corps benefits were as minimal, David Stockman said, as its costs were high.

STOCKMAN: “Over the past 15 years the welfare state entrepreneurs who have dominated policy have I think proven themselves far more adept at fashioning evocative program titles than at achieving desired societal results.”

DAVID SCHOUMACHER: Conservative economics professor, Walter Williams, agreed...

WILLIAMS: “You look at a Job Corps program...It has been a failure in terms of objective, because teenage unemployment is higher now than when Job Corps started...

SHRIVER: It just means that the Job Corps was too small...It’s too small now and was too small then. The Job Corps works...It’s a success...It’s an American success...It’s a good investment. For every dollar that the taxpayer puts into the Job Corps the taxpayer gets back about \$1.48. So it’s like investing in the stock market or putting your money in a bank. We’re getting money back...The Job Corps does not add to the deficit of the United States...It reduces the deficit.”

DAVID SCHOUMACHER: Congressional Republicans and Democrats joined to reject the Reagan abolition attempt and give the Job Corps a “new lease-on-life.” 40,500 Job Corps trainees a year were a good investment, Congress felt, in the battle against poverty. We asked analyst Richard Gill what economists think of the Job Corps and the War on Poverty...

(MUSIC PLAYS – COMMENT AND ANALYSIS II)

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RICHARD GILL: The main lesson we can learn is that reducing hardcore poverty even in the so-called “affluent society” is extremely difficult. In principle, the theory behind the Job Corps concept is far more attractive than that of simple transfer payments.

GILL: Here, Peter...or rather, Uncle Sam...trains Paul to enable him to find a productive place in society. Unfortunately, by any measure, this is an expensive procedure...the training is expensive, trainees often drop out, and, even when they finish the program, they may find it difficult to find jobs, particularly if general unemployment is high. This is really the “leaking bucket” problem. We fill a bucket with water...Peter’s tax dollars...to provide funds for Paul’s training. But the bucket has all sorts of leaks in it. How much water actually reaches its destination? How many of the tax dollars spent on the Job Corps or other such programs actually produce results? In the 1960’s, in the spirit of the great new War on Poverty, many people were willing to overlook a few leaks here and there. In the 1980’s, faced with huge federal budget deficits, most people were concerned to develop programs where these leakages were as small as possible.

PART III

DAVID SCHOUMACHER:

The welfare reform act of 1996 was the largest federal change in welfare policy in decades. What the personal responsibility and Work Opportunity Reconciliation Act basically did was mandate welfare recipients to go to work.

PRESIDENT CLINTON:

Today we are ending welfare as we know it, but I hope this day will be remembered not for what it ended, but for what it began.

DAVID SCHOUMACHER:

But how did welfare really begin? Before there was a government welfare system, poor people had to fend for themselves or rely on charitable organizations.

In the 1930's President Franklin Roosevelt, as part of his New Deal agenda, established a federal welfare system designed to meet the financial needs of the poor. And for many years welfare programs basically worked. In the Sixties the welfare system was showing signs of strain.

Welfare recipients and taxpayers faced an expensive and confusing maze of programs. AFDC, food stamps, public housing, commodity distribution, and a host of others. Overlapping forms, conflicting regulations, welfare agencies became large and costly bureaucracies. Welfare issues split the country. Groups like the National Welfare Rights Organization worked to expand benefits. Critics called on politicians to hold down welfare costs, and get tough with welfare cheaters. It seemed as though our welfare dollar was being eaten up supporting a complicated tangle of welfare bureaucracies. How could we cut through the snarl to help the needy?

ALAN WEIL on-camera:

The people who hated the old welfare system the most were the people on welfare. This is a system that barely gave them enough to live on but it felt to them like a trap, if they went to work and earned a dollar the state would take away most of the dollar in benefits, there was no incentive to work. So, in the past the welfare system failed those who couldn't get over the hurdle of moving into the workplace.

WADE HORN:

This trapped millions of children and families in an intergenerational cycle of welfare dependency and poverty. What the 1996 law said was, we are going to exchange this lifetime entitlement to cash for one that says we will provide temporary assistance which is oriented towards moving you into work because

of the recognition that the only way to escape welfare dependency and poverty is through work and so that was really revolutionary.

DAVID SCHOUMACHER:

Health and Human Services Secretary Tommy Thompson started the Revolution in the late 1980's when he was Governor of Wisconsin.

GOV. TOMMY THOMPSON:

From now on the only check someone in Wisconsin is entitled to is the one they earn through hard work.

DAVID SCHOUMACHER:

Wisconsin became the model for the 1996 reforms. Welfare recipients could only receive a check for a limited time and new incentives like child care were made available for mothers who went into the workforce.

WADE HORN:

What he was able to demonstrate is that if you emphasize work and you provide families with the necessary work support so they can go to work you can dramatically reduce the case loads, you can dramatically increase earnings on the part of the families who are previously on welfare and you can dramatically improve the well-being of children.

WENDELL PRIMUS:

I think this intervention called welfare reform worked for some families but the very same intervention didn't work for other families. For some families they may have needed a little more motivation and maybe they didn't have as many employment barriers. For other families that where the mother is depressed, where she only had a ninth grade education, where her reading and other skills, employment skills weren't nearly as great, those mothers actually I think are worse off as a result of this bill.

WADE HORN:

We have seen caseloads nationally decline by nearly 60%. We have seen child poverty rates plummet. African-American child poverty is now at its' lowest level in recorded history. We have also seen earnings on the part of single-parent households and particularly single mothers dramatically rise over the last five years as they've moved from welfare into work and many of them even out of poverty.

ALAN WEIL:

The primary question that we can't answer is will the policies that were put into place in the mid-nineties work when the economy is not booming and chugging along at unprecedented rates?

BRIAN RIEDL:

Since the 1960's the economy has seen five sustained economic booms and in every boom before the current welfare reforms, welfare caseloads went up, not down. There have been no correlation between the economy and welfare caseloads until the 1990's. When work requirements required welfare recipients to move into the workforce and take advantage of what the economy has to offer. Clearly without work requirements it wouldn't have mattered how the economy was doing because welfare recipients weren't participating in the economy.

ALAN WEIL:

If you believe that the path to economic self-sufficiency is a job and then advancing from the first job to the second job to a career. We've put more people on that path in the last few years than were on it in the old welfare system and that's a very dramatic shift and it's a real sign of success.

WADE HORN:

The challenge that we face is to take the success of the last five years and improve upon it even more that means helping people move not just off of welfare but out of poverty. It means focusing more on the needs of the children, after all they're the historic targets of the welfare system to support them in their

emotional, psychological, social and educational development through the welfare system. So, we're not satisfied, not because we think that the reforms of 1996 haven't worked, they work terrifically well but because we think we can do even better.

DAVID SCHOUMACHER:

The welfare debate has been going on for decades. The percentage of the population receiving benefits is relatively small as is the percentage of the national budget going to welfare. Fortunately, some progress was made in the 1990's. The system is evolving and hopefully will become a dynamic policy open to change. We asked economic analyst Nariman Behravesch for his thoughts on welfare reform

Nariman Behravesch:

The welfare reform act passed in 1996 – or welfare-to-work as it has become known – was a landmark event. After that, welfare no longer provided an alternative to working as a way of life.

In the late 1990s, welfare reform was touted as spectacular success. The number of welfare recipients fell by more than half. The poverty rate of households headed by women fell by almost as much, as you can see in the graph. However, much of the reforms success in moving millions from welfare to work was due to its serendipitous coincidence with a long economic boom that drove the unemployment rate to a 30-year low.

During the same decade, the minimum wage was increased and the earned income tax credit was made more generous. These made it easier for former welfare recipients to earn a living wage.

Unfortunately, the true success of welfare reform would not be tested until the economy went into recession – which it did in 2001.

Predictably, poverty rates rose again, as you can see in the graph.

However, poverty rates stayed below the level they reached in the 1990-91 recession, suggesting that welfare reform could be given some of the credit for the tremendous improvement that was seen in the 1990s.

DAVID SCHOUMACHER:

It has been sobering this survey of fifty years of how America has tried to alleviate poverty. Sobering because for all the good intentions, all the government programs, all the billions of dollars, so much poverty and so much disagreement about what to do about it still remains. In the face of continuing poverty, is it time to get the government out of the way and permit free enterprise prosperity to end poverty? Or does the federal government have the duty and the resources to lift the poor into the mainstream? Have we done too much, or not enough? For Economics USA, I'm David Schoumacher.

Closing Music

Closing Credits