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SOCIAL WELFARE EXPENDITURES AND THE POOR:
THE 1965-1976 EXPERIENCE AND FUTURE EXPECTATIONS

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**Social Welfare Expenditures and the Poor:
The 1965-1976 Experience and Future
Expectations**

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ABSTRACT

This essay presents an economic analysis of the growth of federal, state, and local government social welfare expenditures during the recent past and the extent to which they have benefited low income persons. Several factors responsible for the long term steady growth in real social welfare spending and the rapid expansion in such outlays since 1965 are identified. The growth rate in the late 1970s and 1980s is projected to fall below the pace of the last decade. The distribution of benefits from social welfare programs has been strongly propoor during 1965-1976. Benefits to the 20 percent of Americans who have been pretransfer poor (poor before government transfers) ranged from 41 to 46 percent of total program benefits and currently exceed \$140 billion a year. A few reasons for the persistence of poverty in the face of this aid are suggested. We examine the importance of income tested benefits, changes in the mix of program benefits received by the poor, and differences between federal and state-local aid to the poor.

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The growth of government spending for social welfare purposes is a perennial topic for political debate. So, too, is the related concern over how much of this spending should and actually does benefit low income Americans. To help clarify these important issues and to contribute some firm empirical evidence to the debates, this essay presents an economic analysis of the growth of federal, state and local government social welfare expenditures during the recent past and the extent to which they have assisted low income persons. Combining our understanding of past trends with current political and economic developments, we shall also hazard a few speculations about the next ten years of social welfare spending.

Section I defines the notion of social welfare expenditures (SWE).

The growth of these outlays since the mid 1960s is described and analyzed. The second section presents detailed estimates for 1965 and 1974 of the dollar amount and the percentage of total spending received by the pretransfer poor from social welfare programs.¹ Changes in total benefits and their distribution among important program categories are examined in a number of ways. A summary of major findings appears in the final section.

All expenditure data are expressed in current dollars unless otherwise noted and are for fiscal years. Administrative expenses are excluded.²

I. SOCIAL WELFARE EXPENDITURES - TRENDS AND EXPLANATIONS

The welfare state may be defined as that part of government activity concerned with securing minimum standards of income, health, nutrition, housing, and education for all citizens as a matter of legal right, not as

charity.³ This social institution is founded on the twin beliefs that the state should take an interest in the well-being of its subjects, and that properly fulfilling this responsibility requires direct public intervention to modify the outcomes of unchecked economic forces.

Definition of Social Welfare Expenditures

Ideally, one would like to identify social welfare expenditures as all government outlays aimed at meeting the responsibilities of a welfare state. However, the line separating these activities from other government outlays is hardly precise. We have chosen to include all public programs that provide cash income transfers, food, housing, health services, education, manpower training and employment assistance, and other social services directly to individuals and families. Excluded are community services such as police protection or parks.⁴ Other government expenditures that promote social well-being indirectly, such as research or the setting and enforcing of regulations are also omitted, though admittedly the consequences for social welfare of these types of activities are important (for example, Food and Drug Administration rulings can have profound impacts upon health).⁵

Social welfare expenditures are not synonymous with income tested expenditures. Persons qualify for benefits from the latter category of programs specifically because their incomes are very low. The set of SWE includes such programs, but goes far beyond them. Most SWE are designed to raise the well-being of all citizens, or at least are restricted on the basis of criteria other than the recipient's current income. This should be kept in mind during the analysis in section II of how much of the benefits from SWE go to the pretransfer poor.

Trends in Social Welfare Spending

Government SWE have grown steadily since the end of World War II. During the late 1940s, annual SWE were in the 20-25 billion dollar range. By the late 1950s, spending for these purposes has reached \$50 billion. As Table 1 shows, in 1965, the base year for our detailed analysis, SWE equaled \$72 billion. The advent of Lyndon Johnson's Great Society triggered an explosion in social welfare outlays. Nine years later, SWE had more than tripled to \$225 billion! In 1976 it is estimated that such outlays summed to about \$311 billion.⁶

Part of the enormous recent increases in SWE is illusory because of the inflation of the past decade and the increase in population. Still, after correcting for price changes, per capita SWE grew, on average, a healthy 6.9 (7.2) percent a year between 1965 and 1974 (1976). During 1950-1965, real spending per person for social welfare rose 4.6 percent yearly. The rapid increase of the recent past, then, was a sharp acceleration of a well established record of growth.

Social welfare programs grew from 35 percent of all government spending in 1950 to 40 percent in 1965, then jumped to 56 percent by 1976. Roughly 50 cents of every dollar spent at the state and local level has gone to SWE throughout the past 25 years. In contrast, while only 25 percent of federal spending (net of grants to states) went into SWE in 1950, 59 percent did by 1976.

Measuring the share of GNP devoted to social welfare purposes is a useful alternative way to chart changes in SWE. In the 1950s, less than 10 percent of total income flowed through social welfare programs. By 1965, SWE equaled 10.5 percent of GNP. This figure jumped to 15.9 percent

Table 1

Social Welfare Expenditures, 1950-1976

	Amount (billions of dollars)	Real Per Capita SWE (1974 dollars)	Percent of GNP	Percent of Total Government Outlays
1950	\$ 22 ¹	\$ 298	7.7%	35%
1960	49 ¹	452	9.7	36
1965	72	582	10.5	40
1972	181	1024	15.5	49
1974	225	1063	15.9	52
1976	311 ¹	1253	18.4	56

¹Based on data in A. Skolnik and S. Dales, "Social Welfare Expenditures, Fiscal Year 1976," Social Security Bulletin, January 1977, p. 5. We reduced total SWE reported there by 6 percent to roughly adjust for differences between our notion of SWE and the one used by Skolnik and Dales (see note 5 of text) and thereby obtain approximately comparable figures.

Source: Column 1--1965 and 1972 data from Plotnick and Skidmore, Progress Against Poverty: A Review of the 1964-1974 Decade (New York: Academic Press), 1975, ch. 3; for 1974, appendix available from author upon request. Figures on population, price level, GNP, and government outlays are from Economic Report of the President, 1977, (Washington D.C.: U.S. Government Printing Office), tables B-1, B-26, B-47, B-72, and B-74.

in 1974 and 18.4 percent by 1976. This last figure is inflated, however, by unusually high outlays for unemployment insurance and public assistance efforts in response to the severe recession.

The statistics just reviewed may be misleading in two regards. First, they do not tell us how much of our affluence is spent on explicitly income tested measures. Income tested programs cost 1.3 percent of GNP (Table 2) and accounted for 12 percent of all SWE in 1965. Nine years later, needs tested programs amounted to 2.8 percent of GNP and 17 percent of SWE. Thus specific means tested spending has grown faster than average SWE. However, the share of GNP and SWE given over to income tested programs fell after 1972. The period of rapid growth in income conditioned outlays may be coming to a close.⁷

From Table 2 we conclude that those who argue that income conditioned programs exert an excessive drain on the national product are overstating their case. The same may be said of persons who laud the large and rising share of total SWE as indicative of the nation's commitment to end poverty. Relieving poverty has been but one of many reasons for social programs.

Second, comparing SWE to GNP does not measure the true fraction of economic resources controlled by government for specific social welfare purposes. A large portion of SWE is composed of transfer payments. For such expenditures the public sector acts as a middleman; it does not decide on what articles or services the money will be spent. Transfers, that is, do not use up scarce resources; they redistribute them.^{8,9} In contrast, spending on a social welfare activity such as public education does absorb real resources. Persons who could otherwise produce something else of

Table 2

Income Tested Social Welfare Expenditures

	Amount (billions of dollars)	Share of Total SWE	Percent of GNP
1965	\$ 8.9	12%	1.3%
1968	16.4	15	1.9
1972	33.8	19	2.9
1974	39.4	17	2.8

Source: Same as Table 1.

value must be hired to teach. Expanded school libraries means fewer books for private use, less paper for other products, or fewer trees.

Consider Table 3, which portrays nontransfer SWE and its share of GNP. Resource-using SWE have accounted for no more than half of all SWE in recent years. More interesting is the observation that the fraction of national income channeled into nontransfer SWE has risen rather slowly over the past quarter century. Currently about 1 dollar out of every 14 goes into such programs. Swiftly rising transfers account for most of the rise in the fraction of national income that is administered through (not allocated by) social welfare programs (compare column 3 of tables 1 and 3). Moreover, the share of GNP absorbed by federal resource-using SWE was but 1.8 percent in both 1974 and 1950.¹⁰ The two percentage point rise since 1950 in the overall share of GNP spent on nontransfer SWE is virtually entirely due to rising state-local educational outlays. Persons worried that SWE are gradually eating up our output and steadily giving the public sector, especially the central government, more and more control over resource allocation ("creeping socialism") may do well to ponder these several findings.

Sources of Growth In Social Welfare Expenditures

General Factors Influencing Growth A number of general factors contribute to a persistent tendency for real SWE to rise steadily. We briefly discuss a few of them to provide a background for the analysis of changes in spending since 1965.

Real incomes have grown greatly in the past 40 years. Rising incomes enable people to demand more of nearly everything; it is not surprising

Table 3
Resource-using Social Welfare Expenditures¹

	Amount (billions of dollars)	Share of Total SWE	Share of GNP
1950	\$14.0	59%	4.9%
1965	35.0	48	5.1
1968	52.7	50	6.1
1972	85.1	47	7.3
1974	99.9	44	7.1

¹Resource-using SWE we defined as total SWE minus all cash transfers, food stamps, Medicare and Medicaid (or, prior to 1966, vendor medical payments for public assistance recipients). We include other in-kind transfers (notably public housing) in resource-using SWE because the government virtually dictates the kind of items consumed. With food stamps and the two medical programs, in contest, recipients can generally buy the food or health services of their choice.

Source: For 1950, derived from A. Skolnick and S. Dales, "Social Welfare Expenditures, Fiscal Year 1976," Social Security Bulletin, January 1977, p. 5 and, therefore, not exactly comparable to later years (see 1965, 1968, 1972, and 1974, same as Table 1.

that they have purchased more social services indirectly with taxes.¹¹ Increased affluence, moreover, leads citizens to revise upwards their notions of what constitutes a minimally decent level of income.¹² As this happens, the amount spent on income redistribution to those with the lowest market income rises.

As real incomes rise in an advanced industrial society, the composition of national output shifts towards the service sector and away from agriculture and manufacturing. If they are not redistributing income, social welfare programs largely provide services (health care, education, job training, etc.). The social welfare budget, like the service sector in general, should therefore be expected to grow faster than real per capita income. Furthermore, the cost of services tends to rise faster than average costs of production.¹³ This adds yet another reason for SWE to expand.

Finally, there is an inherent tendency for certain kinds of SWE to grow constantly until the program reaches maturity. For example, expenditures on Social Security were low for many years after the program began because few workers in retirement had qualified for benefits. Over time, a larger and larger fraction of retirees becomes eligible for payments and total outlays climb. This happens even when legal eligibility rules and benefit schedules remain unchanged.

The extension of a program's coverage to a wider portion of the population is another way in which a social program matures. This occurred with unemployment insurance (coverage extended to more occupational groups) and food stamps (extended geographically), for example. Increased outlays caused by expanded coverage are not inevitable -- Congress is

not legally forced to expand programs -- but political pressures to do so are strong.

Sources of Growth Since 1965 For reasons just presented, public outlays for social welfare have steadily risen for decades. The issue at hand is why such expenditures increased so rapidly after 1965.¹⁴ In seeking an explanation, we would do well to focus on real per capita SWE. We can thereby eliminate population and price changes from the analysis. The question then becomes why the annual growth rate of real SWE per person leaped from 4.6 percent during 1950-1965 to 6.9 percent between 1965 and 1974.¹⁵

In our judgment, two developments stand out as primarily responsible. First, many programs were initiated or expanded tremendously after 1965.¹⁶ Some, such as Medicare, quickly blossomed into major programs costing billions of dollars. Others, legal services for the poor, for example, have remained small. Still, together they have noticeably contributed to the higher rate of growth. Three fourths of the rise in the growth rate may be attributed to these activities. If they had not been started, the 1965-1974 rate of increase would have been 5.2 percent.

Second, Social Security payments grew unusually fast in the early 1970s. This was mainly due to generous increases in the benefit schedules rather than to larger numbers of beneficiaries resulting from the program's maturation.¹⁷ In a series of measures between 1967 and 1974, Congress granted benefit increases of 90 percent. Average personal income during this period rose 43 percent. If Social Security increases had been held to a still liberal 55 percent, the annual growth of real SWE per person would have been slowed by about 0.5 percent. Hence,

developments in our largest transfer program plus the advent of new social programs account for nearly all of the change in the overall growth rate.

Perhaps it is begging the question to "explain" the acceleration of the per capital SWE growth rate mainly as a result of new social policies. Pushing further, one can ask why the mid 1960s were conducive to this expansion in the involvement of the public sector in promoting social welfare objectives. A full exploration of this question, however, would take us too far afield. We shall be content to mention in passing two elements of the overall picture.

The mid and late 1960s were quite prosperous years. The unemployment rate fell under 4 percent real incomes rose briskly. In the flush of affluence, new programs could be introduced with minimal fiscal strain, even as Vietnam war expenditures were swelling.¹⁸ The declaration of a war on poverty may also have been a cause of expanded SWE. Programs directly sponsored by the Office of Economic Opportunity accounted for a tiny proportion of the rise in SWE. However, in the opinion of some observers, setting a highly visible antipoverty goal helped spur the development and expansion of a large number of social programs.¹⁹

Future Trends in Social Welfare Spending

The above conclusion has implications for the prediction of future rates of change in SWE.²⁰ Social Security benefit increases are now tied to the price index, and, given the worry about the financial health of this program, Congress is unlikely to supercede this automatic adjustment. The average payment will continue to rise in real terms as recipients with higher earnings records begin collecting benefits, but

the added pressure flowing from large across-the-board increases will probably cease. Because Social Security accounts for a large portion of SWE, such a development will help lower the SWE growth rate.

Programs begun in the mid and late 1960s, because they were new, expanded very fast. By the late 1970s and early 1980s they will no longer be new. Further increases in the funding of these activities will not exert the same dramatic effect on the growth rate.²¹ The largest ones -- Medicare and Medicaid -- have matured in the sense that nearly all persons eligible to participate are doing so. Now that the food stamp program has been implemented nationwide, and the 1974-1975 recession is over, its costs are projected to rise more slowly than in the recent past (if it survives welfare reform efforts).²²

The current climate of fiscal caution in Washington, statehouses, and mayors' offices casts doubt on the likelihood that many new social programs will emerge. Surely, a time of social innovation reminiscent of the heady days of 1965-1968 is unlikely in the next several years. Disenchantment with parts of the Great Society, perhaps ill-founded but certainly a political reality, has fostered disinterest in new approaches to social ills, not a willingness to continue experimenting.²³

Three further signs that SWE will cease their rapid growth bear mention. Public school enrollments will fall during the next decade.²⁴ The great jump in the AFDC participation rate during the late 1960s cannot be repeated. Lastly, concerted efforts to restrain health costs and reduce fraud by providers of Medicaid services may help moderate the growth of government spending in this area.

A forecast of slower growth in SWE seems plausible, but is surely not inevitable. For instance, national health insurance may well be

a reality in the near future. If one of the more ambitious plans is adopted, government social welfare outlays will climb faster.²⁵ Serious reforms of the welfare system are coming under close scrutiny once again. Successful reform in the structure and operation of the major needs tested programs will probably be accompanied by higher costs. Third, a housing allowance, operating much like food stamps, may be enacted, especially if wholesale welfare reform fails.

Social welfare spending could be jolted upwards by these or other, yet unforeseen developments. Nonetheless, our overall prognosis still calls for slower growth of real per capita SWE between 1976 and 1986 than what occurred during 1965-1976.

II. SOCIAL WELFARE EXPENDITURES BENEFITING THE PRETRANSFER POOR

Social welfare programs are operated to help attain a wide number of social goals. Eliminating poverty is but one of these. Thus it is not to be expected that the share of SWE reaching the poor should ever approach 100 percent. However, it is interesting to look at such expenditures from an antipoverty perspective and examine the extent to which the pre-transfer poor have benefited from them. We shall discuss the poor's dollar benefits, the percentage of total SWE aiding this group, and how the patterns of benefits have varied during the 1965-1976 period.

Caveats on the Methodology

The concept of "benefits" used in this analysis is broader than the ordinary notion of "income." Estimated benefits do include cash transfer payments. Also included are in-kind transfers, such as Medicare or child school breakfasts, which provide direct consumption benefits, but are not necessarily perfect substitutes for pure cash. Further, benefits to the poor include the output from many social programs that offer neither cash nor the conventional in-kind benefits. Among such programs are

public education, vocational rehabilitation, and counseling services for welfare recipients.

It may be somewhat misleading to combine data on aid from these sorts of programs with figures on benefits from cash and in-kind transfers. A billion dollars spent on educating poor children is really not equivalent to a billion dollars of food stamps, for example, because the latter are used to satisfy immediate consumption needs, while the former cannot be. Thus, the reader should interpret statistics on total benefits with caution. In keeping with this dictum, wherever possible we have separated social welfare programs into four categories -- cash transfers, in-kind aid (food, housing, and medical services), human resources (education and job training), and other social services. Comparisons among programs within any one of these categories may be made with little hesitation, while program comparisons across these groupings may not.

The precision of our estimates of benefits to the pretransfer poor must be tempered with a few qualifications as well. For several programs, there were insufficient data on the distribution of benefits between poor and nonpoor. In these cases we were forced to use fairly strong assumptions to obtain any estimate at all. Second, benefits are measured in terms of the taxpayer cost (net of administrative expenses) of operating the programs. A dollar of cash aid is presumably worth a dollar to the poor recipient. However, this may not be so for a dollar spent on noncash assistance. For example, the government may offer free counseling services. The benefit is measured by the cost of the counselor's salary, but the poor recipient may prefer a smaller sum in cash and the chance to purchase advice in the private market, or to use the money for other, more pressing needs. To the extent this is so, using taxpayer cost leads to overestimated benefits. Benefits are also

overstated if certain types of programs are inefficiently run. We have eliminated formal administrative expenses from the figures, but for services and human resource programs and much of health care, recipient benefits depend on the skills of the professionals involved. If some of these workers are incompetent and/or ineffectively utilized, using their salaries (i.e., the costs of offering the service) to measure benefits biases upwards the results. Finally, using costs to gauge recipient benefits gives overestimates when providers of the benefit commit fraud.²⁶ Medicaid provides a dramatic example. Journalists have uncovered massive evidence that Medicaid providers have billed the states for services never performed and have been engaged in kick-back schemes. Such violations raise the costs of this program by millions of dollars without increasing real aid to recipients by a cent.

While acknowledging these problems with our estimates, we think the results for 1965-1974 are as accurate as currently available methods permit. Exact figures for any one program in any given year may be somewhat high or low, but trends over time and comparisons across programs are probably fairly reliable. The few figures cited for 1976 are derived from simple extrapolations from 1974 and, thus, must be treated more cautiously.

We should note that the statistics to be presented do not measure the full effect of government activity on the distribution of economic well-being between pretransfer poor and nonpoor. We divide the population into pretransfer poor and nonpoor, then allocate the benefits of SWE between these groups. However, public spending on SWE itself helps determine the number of pretransfer poor.²⁷ Our findings do give us a better view of the final share of economic resources consumed by poor and nonpoor groups in the country.²⁸

Pretransfer Poverty, 1965-1974

Let us review the size and trend of the pretransfer poverty population since 1965 as prelude to a discussion of the benefits from SWE obtained by this group. The level of pretransfer poverty -- poverty remaining when only private income sources are counted -- has been nearly stagnant since the mid 1960s. About 21 percent of all persons were pretransfer poor both in 1965 and 1976. The incidence of pretransfer poverty was slightly lower in the intervening years, but there clearly has been no long run decline.²⁹

Benefits to the Pretransfer Poor

Table 4 provides summary statistics on the level and growth of the pretransfer poor's benefits from SWE, and how they compare to those received by the nonpoor. From these data we readily conclude that the distribution of SWE has been strongly propoor and has shown no signs of becoming less so.

The fraction of SWE benefiting the pretransfer poverty population has hovered around 41 to 45 percent throughout the 1965-1976 period. The table seems to suggest an upward trend in this percentage since 1968. However, once one takes into account changes in the incidence of pretransfer poverty over the years, no clear trend is discernible.³⁰

Because overall social welfare spending increased so rapidly, while the poor's share stayed fairly steady, the dollar value of benefits to the poor grew enormously. This group obtained \$31 billion in benefits in 1965, \$101 billion by 1974 and, using rough estimates, \$143 billion in 1976.

Average benefits per pretransfer poor person showed a parallel rise from \$756 to \$3157. This jump represented a yearly growth rate of 13.9 percent. After adjusting for inflation, the average rate of increase was still a hefty 7.9 percent. However, between 1972 and 1974, the real growth

Table 4

Social Welfare Expenditures Benefiting the Pretransfer Poor,
1965-1976 (current dollars)

	SWE to Pretransfer Poor (billions of dollars)	Percent of Total SWE	SWE per Pretransfer Poor Person	SWE per Pretransfer Nonpoor Person
1965	\$ 30.9	43%	\$ 756	\$ 273
1968	43.7	41	1222	387
1972	78.5	43	1990	620
1974	101.9	45	2400	741
1976	142.8	46	3157	1007

Source: For 1965, 1968, and 1972, Plotnick and Skidmore, op.cit., ch. 3,5 and 6.
For 1974, same as Table 1.

For 1976, total spending on SWE as given in Table 1 was separated into seven major program categories in proportion to the amount spent on each category according to Skolnik and Dales op.cit. The fraction of outlays received by the pretransfer poor from each category in 1974 was then multiplied into total spending for each category and the results summed to obtain a rough estimate of total benefits in 1976.

rate was virtually zero.

Persons in nonpoor living units also received benefits from SWE, of course. But their level has been much lower. Their rate of growth has lagged slightly, too. The per capita cost of SWE for the nonpoor rose from \$273 in 1965 to \$1007 in 1976, or by an average of 12.6 percent a year (6.7 percent in real terms).

Social Welfare Benefits and the Persistence of Poverty

Average outlays on SWE per pretransfer poor person have far exceeded the average pretransfer poverty gap (this is the amount of money needed, on average, to bring each pretransfer poor living unit to the poverty line) every year (compare columns 1 and 3 of Table 5). Why is it, then, that posttransfer poverty still persists? Two observations explain this puzzle.

First, between 20 and 25 percent of the pretransfer poor's benefits have been delivered in the form of social services and human resource development programs. It is inappropriate to expect these sorts of benefits to reduce income poverty directly. Such activities may reduce poverty in the long run, for example, by equipping low wage workers with job skills or providing poor children with education that may help them escape poverty when they become independent. Drug abuse or counseling programs may aid a poor man to cope better with day-to-day living, but these benefits in themselves cannot improve his shelter or relieve his hunger.

To see how much of the pretransfer poor's benefits could have directly increased consumption and consequently relieved income poverty, we must examine just cash and in-kind assistance. In every year, average benefits from these two program categories (Table 5, column 2) exceeded average needs.³¹ This aid could have been distributed among pretransfer poor households in a way that would have eliminated poverty. Obviously, the

Table 5

Social Welfare Expenditures and the Pretransfer Poverty Gap
(current dollars)

	SWE per Pretransfer Poor Person (All types of aid)	Cash and In-kind SWE per Pretransfer Poor Person	Average Pretransfer Poverty Gap
1965	\$ 756	\$ 603	\$ 543
1968	1222	921	645
1972	1990	1525	870
1974	2400	1899	1061

Source: Same as Table 4.

transfer system has not worked this way. For numerous reasons discussed elsewhere in detail, some living units have collected large cash and in-kind transfers that moved them well beyond the official poverty thresholds, while other needy families and individuals have received meager benefits, or none at all.²

The Structure of Benefits Received by the Pretransfer Poor in 1974

This part of the analysis examines in more detail the benefits received by the poor in 1974. For simplicity, social welfare programs are divided into four functional groupings -- cash, in-kind, social services, and human resources -- and two eligibility categories -- income tested and non income tested. This yields eight broad sets of programs. The share of the poor's benefits contributed by each category (the composition of benefits) is treated first. Then we discuss which types of programs channeled high fractions of their total outlays to the pretransfer poor, and which provided relatively low percentages. Differences between federal and state-local SWE benefits to the poor are briefly explored at the end of this topic.

Most people probably think the pretransfer poor obtain most of their government benefits from income conditioned programs such as AFDC or public housing. In fact, this has not been true throughout the 1965-1974 period. Table 6 indicates that only 30 percent of all SWE going to the poor was needs tested in 1974.³³ For earlier years this figure ranged between 24 and 35 percent.³⁴

Income tested cash transfers provided only one eighth of total aid to the poor. In-kind assistance from needs tested programs accounted for about one ninth. Nearly 90 percent of such in-kind aid was from food stamps, public housing, and Medicaid. Services and human resource programs restricted to persons with low incomes have not been very important sources of

Table 6

The Structure of Social Welfare Benefits for the Pretransfer Poor, 1974

	Percent of Total Benefits of the Poor (composition)	Percent of Total Spent on Program Category Received by the Poor
Income-tested programs	29.9%	77%
Cash transfers	12.5	84
In-kind aid	11.6	73
Services	2.6	78
Human resources	3.2	70
Non income-tested programs	70.1	38
Cash transfers (social insurance)	43.7	50
In-kind aid	11.4	52
Services	1.8	51
Human resources	13.2	19
All programs	100.0% (\$101.9 billion)	45%

Source: Same as Table 1.

benefits. ³⁵

Programs for which eligibility is not affected by current income furnished 70 percent of the pretransfer poor's benefits. Cash transfers were by far the largest source of aid. They provided 44 percent of the total \$102 billion. About three quarters of the poor's social insurance payments came from Social Security and the similar railroad employee programs. Another 15 percent stemmed from government employee pensions. Non income tested in-kind assistance formed 11 percent of all benefits. Medicare was responsible for half of this aid. Human resources

contributed 13 percent. This figure is so high simply because ordinary benefits to poor children from public elementary and secondary education are quite large. Finally, services provided without a needs test were a minor source of benefits.

The share of outlays received by the poor varied widely across the eight categories (column 2 of Table 6). Income conditioned activities reassuringly channeled a high fraction -- 77 percent -- of their benefits to the needy. Cash transfers were the most propoor (84 percent); services ranked second (78 percent). In-kind and human resources programs oriented towards low income groups both delivered about 70 percent of their benefits to the pretransfer poor.

The proportion of needs tested SWE going to the pretransfer poor does not approach 100 percent for several reasons. The upper income limits for food stamps, public housing, and a few other income tested programs exceed the official poverty lines. Thus, some families may deservedly participate in these programs yet not be pretransfer poor. Second, eligibility for social programs such as public assistance or SSI is determined by the applicant's monthly income.³⁶ A household can collect benefits in months when its income is low (e.g., when the breadwinner is unemployed) even though its pretransfer income for the entire year is higher than the poverty level. Third, a few SWE are directed at low income areas. For example, federal aid to the educationally disadvantaged is distributed to school districts. The output of such programs helps poor and nonpoor alike. Finally, some persons legally ineligible for needs tested assistance obtain it fraudulently. However, while these occurrences garner wide publicity, little of the total cost of income tested programs or of the "leakage" of benefits to the pretransfer nonpoor is due to this cause.

The pretransfer poor received 38 percent of the benefits from SWE provided without a means test. They collected almost half of all social insurance payments. Though at first this figure may seem high, it is really not so surprising. Most of this cash went to the elderly as Social Security or government pensions and a high proportion of the aged are pre-transfer poor.

Non income tested human resources programs delivered only 19 percent of their output to the poor. The reason why this is so low is clear. Over 80 percent of the funds in this category are spent by state and local educational institutions. Poor elementary and high school students receive much the same benefits as other pupils, while children from poor families are less likely than average to attend college.

Federal vs. State-Local Benefits Historical conditions, political and constitutional considerations, and economic factors combine to determine the division of government responsibilities between federal, and state and local authorities. The mix of activities, both in social welfare areas and elsewhere, has come to differ substantially between central and decentralized levels of government in the U.S. Furthermore, the direction and major funding for the war on poverty and many other social welfare initiatives has rested in Washington in recent years. A comparison of federal to state-local SWE, therefore, can be expected to reveal marked differences. In 1974, the pretransfer poor benefited from 55 percent of all federal SWE and 32 percent of state-local outlays. Partly because of this difference, and partly because total federal spending for these purposes far exceeded state-local efforts, 70 percent of the poor's benefits came from federal sources.

Federal SWE deliver a much greater fraction of their benefits to the poor than do state-local SWE because of differences in the kinds of programs funded by the two levels. Over 20 percent of federal spending

goes towards income tested programs. Another 60 percent flows into cash social insurance. Both of these program categories channel a relatively high proportion of their funds to the pretransfer poor. In contrast, social insurance and all income conditioned programs together absorb only 22 percent of state-local SWE. At the same time, education, which provides a rather small portion for the poor, accounts for 66 percent of state-local outlays, but merely 7 percent of the federal total.³⁷

Changing Patterns of Benefits to the Poor, 1965-1974

The figures of Table 6 portray the structure of American society's aid to the poor during one year, 1974. This structure has not been static, but has evolved in response to economic and political developments. In this part of the analysis we shall explore some of the ways in which the pattern of benefits to the poor changed during the 1965-1974 period.

The most striking change since 1965 -- the enormous growth in dollar benefits -- has already been discussed. We shall focus here on changes in the composition of benefits and in the fraction of funds going to the poor from particular program categories. For convenience, programs will be grouped into the same eight categories as before.³⁸

Between 1965 and 1972, the fraction of the poor's benefits derived from income tested outlays rose steadily from 24 to 35 percent. The 1974 result of 30 percent suggests a halt to this trend. Two changes explain this. Of greater importance is that means tested programs formed a smaller fraction of total SWE in 1974 than in 1972, while during 1965-1972 this share was growing (see Table 3). Also, the share of income tested benefits going to the poor fell slightly after 1972.

This development is a mixed blessing from the standpoint of the poor. On the plus side are at least three points. The larger the fraction of aid received from universal, non means tested funds, the less likely it is

that this aid will be singled out for political attack. Such benefits cannot be readily separated from benefits to other groups, nor attacked as special provinces of the needy. Similarly, political realities often make it easier to expand universal programs than those targeted on low income groups, even when the universal ones are quite propoor de facto. Finally, universal programs avoid stigmatizing their beneficiaries as "poor."³⁹ These positive forces necessarily bring danger with them. The poor run the risk of having their benefits diluted. A decline in the importance of income tested programs would be unlikely to reduce the total dollar aid to the pretransfer poor, but it could well reduce the growth rate of their benefits and their share of total SWE.⁴⁰

The poor's total benefits rose by \$71 billion during 1965-1974. Income tested programs accounted for one third of this growth. The remainder came from programs available to persons of all income classes and quietly grew, apart from the continuing debates over the war on poverty, welfare reform, and other specific antipoverty measures.

Perhaps the most notable change in the composition of the poor's SWE has been the shift away from cash and towards in-kind transfers. Cash aid was 68 percent of total benefits in 1965. This fraction dropped to 56 percent by 1968 and has remained close to this value ever since. Simultaneously, in-kind assistance climbed from 12 percent in 1965 to 19 percent in 1968 and 23 percent in 1974. This growth largely reflected the surge in means tested transfers in-kind. Human resource programs and services have accounted for roughly the same fraction of total benefits to the poor in 1974 as in 1965.

From the growth and current structure of the poor's SWE it is hard to discern much of an underlying conception of how American society should aid its needy members. To an extent, this is understandable. Most SWE are not income conditioned. They provide services that the public feels should be offered by government to all regardless of income (for example, public

education), or they derive from legislative preferences for aiding deserving groups, many of whom are not needy -- the aged, children, college students, the disabled, etc.⁴¹ The pretransfer poor receive a share of these SWE because they meet some eligibility criteria other than an income test. The pattern of aid to the poor from such programs, then, is basically an artifact of two phenomena: the distribution of these eligibility criteria between pretransfer poor and nonpoor, and the pace of growth for these programs, which depends on the kinds of political and economic factors reviewed earlier. Hence, non means tested benefits to the poor should not be expected to follow a clear pattern in any year or over time.

Unfortunately, even if we just examine the evolution of income tested programs, central guiding principles are few. Perhaps the only clear judgment made and executed by Congress is that in-kind transfers should form an important portion of the poor's benefits.

Future Social Welfare Benefits for the Poor It is reasonable to expect real per capita social welfare benefits for the pretransfer poor to continue growing.⁴² We expect the growth rate to decline from the 1965-1976 pace if our forecast of a slower rate of expansion in real total SWE per person is vindicated. Whether the pretransfer poor will collect a larger or smaller share of their benefits from in-kind transfers partly depends on the fate of national health insurance proposals, federal housing policy decisions, and general welfare reform efforts, which may cash out food stamps and other noncash aid. It is also not clear what will happen to the growth of the poor's per capita benefit relative to that of the nonpoor. In the past the average benefit for the poor rose more rapidly. Favoring a continuation of this is that federal SWE will likely keep increasing faster than state-local outlays, for federal social programs tend to deliver

a higher percentage of their benefits to low income people. Offsetting this, however, is a possible decrease in the share of SWE that is needs tested.

III. SUMMARY AND CONCLUDING COMMENTS

In the United States, social welfare expenditures are important social instruments for providing income support, education, medical treatment and other services to a wide cross-section of the population. Our study of these outlays and the benefits they confer on the pretransfer poor is summarized below:

- * Outlays for social welfare purposes jumped from \$72 billion in 1965 to \$225 billion in 1974 and currently surpass \$300 billion.
- * Programs specifically targeted on low income groups rose from 12 to 19 percent of SWE and from 1.3 to 2.9 percent of GNP in the 1965-1972 period. The share of SWE and GNP devoted to income tested programs fell in 1974.
- * Several factors that promote steady growth in real per capita SWE were identified. The sharp jump in this growth rate after 1965 reflected the effects of these factors plus two special phenomena: a burst of new programs ushered in by the Great Society, and unusually rapid improvement in Social Security benefits.
- * The distribution of benefits from SWE has been strongly propoor throughout the 1965-1976 period. Roughly 20 percent of the population has been pretransfer poor, but this group benefited from 41 to 45 percent of all SWE. Total benefits to the poor rose from \$31 billion to \$143 billion.
- * Despite these massive benefits, poverty has not disappeared. Human resource and service programs do not reduce income poverty, while cash and in-kind aid has not been distributed among pretransfer poor.

households in proportion to their need.

* Income conditioned outlays provided 30 percent of the poor's benefits in 1974. Over three fourths of such expenditures go to pre-transfer poor persons. About three eighths of funds for non income tested programs was channeled to the poor, but such outlays still account for most of their benefits.

* Income tested benefits became a larger source of aid for the poor between 1965 and 1972. This trend was reversed in 1974. In-kind transfers have emerged as an important component of aid.

It is clear that the pretransfer poor have received large and growing benefits from SWE. On a per capita basis benefits have been far above those for the nonpoor. But while collectively congratulating ourselves for this generosity, let us keep two points in mind.

First, poverty remains, even when the benefits of in-kind transfers are included in family incomes. To us, this fact calls not for a cutback in SWE, least of all in income tested ones, as some have suggested with the argument that "throwing money at problems," including that of poverty, has not worked. Rather, even if this is correct, it shows the need for careful thought on how to redirect some of the billions spent, or, what may be politically easier, how best to use the future growth in SWE to minimize economic need.

Second, more attention to lowering the level of pretransfer poverty may have been warranted. Manpower training and education programs have been oriented to this goal, but they have worked within the structure of labor markets and economic power, not confronted it. Attempts to change this basic structure -- including public employment, regulatory reform, vigorous antitrust action, promotion of worker controlled enterprises and unions, affirmative action, and others -- may do more to prevent poverty than do SWE, which mainly temper the results of market forces.

DATA APPENDIX

Table A1 contains the detailed figures, with documentation, from which the results for 1974 in the text are derived. Figures for 1965, 1968, and 1972 are based upon similar detailed tables in appendix A of R. Plotnick and F. Skidmore, Progress Against Poverty: A Review of the 1964-1974 Decade, (New York: Academic Press), 1975. Tables A2 and A3 contain supplementary data cited in footnotes.

Table A1

Total Social Welfare Expenditures and Benefits to the

Pretransfer Poor, 1974
(In thousands of dollars)

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor
ALL PROGRAMS	225,336,674	101,860,818	45
FEDERAL PROGRAMS	130,024,841	71,756,818	55
I. Cash transfers ¹	87,278,401	47,967,500	55.0
A. Social Security	53,563,515	31,495,300	58.8 ^a
B. Railroad retirement ¹	2,670,549	1,570,300	58.8 ^a
C. Railroad disability ¹	28,053	16,500	58.8 ^a
D. Public employee retirement ¹	10,775,911	4,364,200	40.5 ^a
E. Unemployment insurance ¹	5,315,962	1,105,700	20.8
1. Federal employees and exservicemen	353,824	1,105,700	20.8 ^a
2. Railroad	22,417		
3. State administered	4,939,721		
F. Workmen's compensation ¹	1,236,798	559,000	45.2
1. Regular	270,613	559,000	45.2 ^a
2. Black lung	966,185		
* G. Public assistance ¹	6,924,515	5,948,400	85.9
1. AFDC	4,008,539	3,679,800	91.8 ^a
2. OAA, AB, APTT and emergency assistance	1,047,038	814,600	77.8 ^a
3. SSI	1,868,938	1,454,000	77.8 ^a
H. Veterans' income support ⁵	6,763,098	2,908,100	43.0
** 1. Compensation and pensions	6,615,599	2,908,100	43.0 ^a
2. Burial benefits	101,607		
3. Special allowances	740		
4. Vocational rehabilitation allowances	45,152		

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor
II. Nutrition	4,544,172	3,237,500	71
* A. Food Stamps ¹	2,718,296	2,256,200	83 ^k
B. Child nutrition	1,599,588	763,700	48
* 1. Donated food, sec 32, 416 ¹	251,933		
2. Cash-School lunch, sec 4 ¹	408,506		
3. Food bought, sec 6 ¹	67,285		
* 4. Special cash assistance, sec 11 ¹	255,559		
5. Special food services, sec 13 ¹	61,776	754,500	48 ^{cc}
6. Supplemental cash, sec 32 ¹	418,666		
7. Milk program ¹	49,158		
* 8. School breakfast ¹	58,897		
* 9. Nonfood cash assistance ²	27,808	9,200	33 ^{cc}
* C. Surplus commodities	229,288	217,600	95
1. Needy families ¹	204,505	203,500	99 ^g
2. Institutions ¹	24,783	15,100	61 ^g
III. Housing	1,968,281	1,282,000	65
* A. Public housing ¹	1,232,907	900,000	73 ^j
* B. Rent supplements ¹	137,383	105,800	77 ^j
* C. Homeownership and rental housing assistance, sec 236 ¹	523,139	240,600	46 ^j
D. Rural housing programs ¹	7,066	6,300	89 ^{bb}
E. College housing debt service grants ¹	12,137	1,000	8 ^v
* F. Neighborhood facilities grants ¹	40,465	17,800	44 ^h
G. Special disabled veterans' housing benefits ⁵	15,184	10,500	69 ^{hh}

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor
IV. Health	19,176,077	11,120,411	58
A. Medicare ⁸	9,556,900	5,638,600	59 ⁱ
* B. Medicaid ¹	5,563,464	4,061,300	73 ^c
C. Maternal and child health ¹	224,957	206,500	92
1. Maternal and child health services	65,357	121,800	92 ^e
2. Crippled children's services	67,060		
3. Child dental health	1,130	85,700	93 ^e
* 4. Special projects for comprehensive child health	48,924		
* 5. Special projects for maternal and child health	42,126		
D. Family planning ²	100,165	68,100	68 ^e
F. Indian health and sanitation ²	216,056	168,500	78 ^{dd}
F. Migrant health ²	23,750	23,750	100 ^g
G. Comprehensive health services- formula grants to states ²	89,410	54,500	61 ^h
H. Health services development and family health centers ²	133,361	133,361	100 ^g
I. St. Elizabeth's Hospital ²	40,388	38,000	94 ^g
** J. Veterans' medical services ⁵	2,833,622	595,100	21 ^l
K. Health facilities construction (nonveteran) ¹	288,000	109,400	38 ^{dd}
** L. Veterans' health facilities construction ⁵	106,364	22,300	21 ^m

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor
V. Social and community services	3,711,839	2,556,651	69
* A. Public assistance social services ¹	1,562,851	1,219,000	78 ^b
* B. SSI rehabilitation services to disabled ²	11,393	8,900	78 ^b
C. Child welfare ¹	47,421	31,800	67 ^{cc}
* D. Indian welfare and guidance ¹	68,851	68,851	100 ^e
E. Cuban refugee programs ¹	100,417	75,100	75 ^h
F. Aging programs ¹	322,658	242,000	75 ^{dd}
* G. OEO initiated programs	738,294	709,600	96
1. Community Action activities ²	518,927	513,700	99 ^e
2. Legal services ²	73,920	70,200	95 ^e
3. Migrant farmworkers aid ²	21,500	21,500	100 ^g
4. Community Economic Development ²	38,109	34,700	91 ^h
5. ACTION (Foster Grandparents, etc.) ¹	85,838	69,500	81 ^{ff}
* H. Model Cities ²	468,475	201,400	43 ^{gg}
I. Mental health programs ²	391,479	167,700	43
1. Community mental health centers	102,135	70,600	62 ^h
2. Children's services	11,794	97,100	35 ^h
3. Drug abuse	150,657		
4. Alcoholism	126,893		
VI. Employment and manpower	3,968,422		
A. Employment services	501,085	267,600	53
1. State employment agencies ¹	443,385	221,700	50 ^t
2. Computerized job placement ⁹	24,700	12,900	52 ^h
3. Indian employment and training ⁴	33,000	33,000	100 ^t
B. Vocational rehabilitation	763,537	523,200	69 ^t
1. Social Rehabilitation Service ⁹	687,400	481,200	70 ^t
2. Social Security Admin. ¹	53,544	37,500	70 ^t
3. Veterans' Admin. ⁵	22,593	4,500	20 ^u
* C. Manpower training	2,098,800	1,796,600	86
1. OJT (excluding 5,6,8) ⁴	10,000	9,300	93 ^s
2. Institutional (excluding 5,6) ⁴	74,000	49,600	67 ^z
3. Work experience (excluding 5,6,9) ⁴	12,000	10,400	87 ^p
4. Job Corps ⁹	164,100	164,100	100 ^z
5. Comprehensive Manpower Assistance (excl. Job Corps) ⁴	1,254,900	1,179,600	94 ^t
6. Work Incentive Program ⁹	218,000	198,400	91 ^s
7. Public assistance soc. service ⁹	29,800	29,800	100 ^t
8. Veterans' OJT ⁹	261,800	81,200	31 ^u
9. Employment for disadvantaged youth	74,200	74,200	100 ^t
D. Emergency employment assistance ⁹	605,500	175,500	29 ^{dd}

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor
VII. Education	9,377,649	2,829,856	30
A. Student support	1,812,194	329,456	18
1. Fellow/traineeship ³	864,661	69,200	8 ^q
2. Training grants			
3. Indian scholarships ¹	22,756	22,756	100 ^{dd}
* 4. Work-study and cooperative education ⁷	110,806	51,000	46 ^e
* 5. Basic educational opportunity grants ²	305,593	48,900	16 ^e
* 6. Supplemental educational opportunity grants ²	214,032	72,800	34 ^e
7. Insured loans-interest reduction payments ⁷	294,346	64,800	22 ^e
B. Preschool, elementary and secondary education	3,295,187	1,551,100	47
1. Shared revenue from public lands ⁷	110,116	19,800	18 ^d
2. Indian education ¹	15,694	12,400	79 ^{dd}
3. Assistance in special areas ⁷	159,549	28,700	18 ^d
4. School aid to federally affected areas ⁷	558,527	100,500	18 ^d
5. NDEA, instructional aid ⁷	31,716	5,700	18 ^d
6. NSF science education ⁷	2,000	400	18 ^d
* 7. Head Start and Follow Through ²	444,797	395,900	89 ^{cc}
8. Elementary and Secondary Education Act ⁷	1,701,127	907,000	53
* a. Educationally deprived	1,460,058	861,400	59 ^{cc}
* b. Bilingual education	3,731	2,500	68 ^{dd}
* c. Dropout prevention	1,054	600	58 ^{dd}
d. Library resources	71,267		
e. Supplementary educa- tion centers	128,236	42,500	18 ^d
f. Strengthening state education depts.	36,781		
* 9. Teacher corps ⁷	33,073	15,200	46 ^{cc}
10. Handicapped early childhood aid ⁷	11,065	3,700	33 ^{cc}
11. Handicapped education ⁷	43,016	13,800	32 ^{cc}
12. Emergency school assistance ⁷	184,507	48,000	26 ^{dd}

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor
VII. Education (continued)			
C. Higher education	3,559,541	701,800	20
1. Higher Education Act ⁷	13,890	1,900	14 ^r
* 2. Upward Bound, Talent Search and remedial services ⁷	77,551	65,100	84 ^e
3. Language development ⁷	11,395	1,100	10 ^x
4. Landgrant colleges ⁷	12,200	1,600	13 ^w
5. Educational exchange ⁷	30,510	100	10 ^{hh}
6. Special institutions ² (Howard/Gallaudet et al.)	92,579	11,100	12 ^y
7. Construction grants	200,123	28,000	14
a. Higher Education Facilities Act ⁷	64,886	28,000	14 ^r
b. Health professions ¹ teaching facilities ²	123,000		
c. Special institutions ²	12,237		
8. Veterans' education benefits ⁵	3,121,293	593,000	19 ^a
D. Vocational and adult educ. ⁷	710,728	247,500	35
1. Vocational-technical	454,022	140,700	31 ^h
2. Adult basic education	63,270	43,000	68 ^h
3. Agricultural extension	193,436	63,800	33 ^{dd}

	Expenditures	Benefits to Pretransfer Poor	Percentage Spent on Pretransfer Poor		
STATE AND LOCAL PROGRAMS ¹	95,311,833	30,104,000	32		
I. Cash transfers	16,128,628	9,247,300	57.3		
A. Public employee retirement	5,682,000	2,301,200	40.5 ^a		
B. Temporary disability insur.	480,521	129,700	27 ^o		
C. Workmen's compensation	4,152,274	1,876,800	45.2 ^a		
* D. Public assistance	5,657,615	4,872,400	86.1		
1. ADFC	3,362,417	3,086,700	91.8 ^a		
2. OAA, AB, APTD and General Assistance	1,652,400	1,285,600	77.8 ^a		
3. SSI	642,798	500,100	77.8 ^a		
E. Veterans' bonuses and compensation	156,218	67,200	43.0 ^a		
II. Nutrition - child nutrition	412,012	197,800	48 ^{aa}		
III. Housing	544,874	397,800	73 ^j		
IV. Health	11,617,934	7,139,400	61		
* A. Medicaid, vendor medical	4,173,934	3,047,000	73 ^c		
B. Hospital and medical care	4,240,000	2,628,800	62 ^{dd}		
C. Maternal and child health	258,727	238,400	92		
1. Maternal and child health services	119,000	209,800	92 ^{aa}		
2. Crippled children's services	109,000				
3. Child dental health	377				
* 4. Special projects for comprehensive child health	16,308			28,600	93 ^{aa}
* 5. Special projects for maternal and child health	14,042				
D. Other public health	1,972,273	670,600	34 ^{dd}		
E. Medical facilities construction	973,000	554,600	57 ^{dd}		
V. Social services	3,406,089	1,994,500	59		
* A. Public assistance social services	592,165	461,900	78 ^b		
B. Child welfare	462,579	309,900	67 ^{aa}		
C. Institutional care	2,351,345	1,222,700	52 ^{dd}		
VI. Manpower (vocational rehabilitation)	128,804	88,900	69 ^{aa}		
VII. Education	63,073,492	11,038,300	18		
A. Elementary and secondary schools (operating and construction)	48,408,492	8,713,500	18 ^d		
B. Higher education (operating and construction)	11,700,000	1,287,000	11 ^{ee}		
C. Vocational and adult education	2,965,000	1,037,800	35 ⁿ		

* Denotes a needs conditioned program

** Means that part of the spending for this category is needs conditioned

All figures in column 2 rounded to nearest hundred, which may cause ratio of column 2 to column 1 to diverge slightly from percentage listed in column 3.

KEY TO TABLE A1

Numbers appearing next to program names refer to the sources used to obtain total expenditure figures. Letters appearing in right-hand column refer to the sources and method used to distribute benefits to pretransfer poor.

Sources of Total Expenditure Data

1. Ida Merriam and Alfred Skolnik, Alfred Skolnik and Sophie Dales, "Social Welfare Expenditures," unpublished tables of the Social Security Administration based upon the expenditure series in Social Welfare Expenditures Under Public Programs in the United States, 1929-66, Social Security Administration, Office of Research and Statistics Research Report 25, 1968.
2. U.S. Office of Management and Budget, The Budget of the United States Government, Fiscal Year 1976; Appendix, (Washington, D.C.: U.S. Government Printing Office), 1975.
3. Decreased the 1972 figure by the fraction that total Federal fellowships, traineeships, and training grants decreased between 1972 and 1974 as indicated in sources (6) and (7).
4. U.S. Office of Management and Budget, Special Analyses: Budget of the United States Government, Fiscal Year 1976 (Washington, D.C.: U.S. Government Printing Office), 1975.
5. U.S. Veterans Administration, Annual Report, 1974, Administration of Veterans Affairs (Washington, D.C.: U.S. Government Printing Office), 1975.
6. U.S. Department of Health, Education, and Welfare, Education Division, National Center for Education Statistics, Digest of Educational Statistics, (Washington, D.C.: U.S. Government Printing Office), 1974.
7. U.S. Department of Health, Education and Welfare, Education Division, National Center for Education Statistics, Digest of Educational Statistics, (Washington, D.C.: U.S. Government Printing Office), 1976.
8. Nancy L. Worthington, "National Health Expenditures, 1929-74," Social Security Bulletin, Vol. 38, No. 2, February 1975, pp. 3-20; and Marjorie S. Mueller and Robert M. Gibson, "National Health Expenditures, Fiscal Year 1975," Social Security Bulletin, February 1976, pp. 3-20.
9. Unpublished data, U.S. Office of Management and Budget, Forms 50A and B from the Fiscal Year 1976 Budget, Manpower Special Analysis.

Sources and Methods for Allocating Benefits to the Poor

- a. Tabulations from March 1975 Current Population Survey of share of income received by pretransfer poor from appropriate transfer program.
- b. Tabulations of number of households receiving public assistance. Assumes each household receives the same amount of social services.
- c. Tabulations of the number of persons in households receiving public assistance income. Assumes each person gets the same (insurance) benefit from Medicaid.
- d. Tabulations of the fraction of school-age children in pretransfer poor families. They are assumed to receive 5 percent less than the average per child expenditure.
- e. Begins with unpublished work kindly provided by Gordon Fisher of HEW that provides estimates of program benefits going to posttransfer poor. (These estimates were, in most cases, derived from data supplied to him by the various federal agencies involved.) To convert this to pretransfer poor benefits, we assume that benefits going to the pretransfer nonpoor are uniformly distributed. Then, the posttransfer nonpoor who were pretransfer poor (as determined by data tape tabulations) are assigned their share of these evenly distributed benefits. This figure is added to the HEW estimate to produce our results. For programs in which the posttransfer poor receive more than proportional benefits, it is probable that the pretransfer-poor-posttransfer-nonpoor group also receives more than its proportionate share. In these cases, this method is likely to give underestimated benefits to the pretransfer poor. Conversely, if posttransfer poor get less than proportional benefits, this approach may yield overestimates.

For all programs with (e), the above procedure is applied to families only.

- f. Based on data provided by G. Fisher of HEW (derived from data supplied to him by the various federal agencies involved) and on program descriptions.
- g. These are unchanged HEW estimates of benefits to the posttransfer poor (derived from data supplied by the various federal agencies involved). They are used when the estimate is 100 percent to the posttransfer poor (and hence 100 percent to the pretransfer poor), or when the method outlined in (e) was inapplicable and other distributional data was not available.
- h. See (e). Here all households, including unrelated individuals, are considered.
- i. Based on tabulation of persons over 65 who are pretransfer poor.
- j. Uses data giving the distribution of beneficiaries by posttransfer income classes in U.S., Department of Housing and Urban Development, 1974 HUD Statistical Yearbook (Washington, D.C.: U.S. Government Printing Office), 1976. Our method of converting a distribution among posttransfer income

classes into a distribution between pretransfer poor and nonpoor is best explained by example. Suppose we had a distribution of program beneficiaries as shown in Row 1 below. And suppose a tape tabulation showing the fraction of households in a given posttransfer income class that were pretransfer poor gave Row 2.

	Posttransfer income					
	\$0-\$1999	\$2000-\$2999	\$3000-\$3999	\$4000-\$4999	\$5000-\$7999	\$8000- and more
Percent of recipients	10	15	20	25	15	15
Fraction pre-transfer poor	.99	.88	.66	.46	.22	.01

Then, assuming the incidence of poverty among recipients in each income class was the same as the average (e.g., .66 for \$3000-\$3999), multiplying entires in Row 1 by the corresponding entry in Row 2 and summing the results will yield the fraction of recipients who are pretransfer poor. In this example we get $(.99 \times 10) + (.46 \times 25) + (.22 \times 15) + (.01 \times 15) = 51.25$, which we round to 51 percent.

- k. Based on tabulations of tape records of A Panel Survey of Income Dynamics for 1975. Key in The Regents of the University of Michigan, Survey Research Center, A Panel Study of Income Dynamics: Procedures and Tape Codes 1975 Interviewing Year, (Wave III: A Supplement) (Ann Arbor, Michigan: Institute for Social Research, The University of Michigan).
- l. Takes HEW estimates as base and adds to them the average of two other estimates. One of these assumes all posttransfer nonpoor veteran-headed families receive equal health benefits and, as in (e), gives the pretransfer poor who are posttransfer nonpoor their share of these benefits. The second estimate assumes that each pretransfer poor veteran-headed family receives the same average benefit as did the posttransfer poor families. Pretransfer family data obtained from tape tabulations.
- m. Uses same percentage as (l).
- n. Weighted average of percentages for federal vocational and adult-education programs (weights are the federal expenditures).
- o. Basic data from tables giving the distribution of days lost from work among posttransfer income classes. Source is U.S., Department of Health, Education, and Welfare, Public Health Service, Health Resources Administration, National Center for Health Statistics, Data from the National Health Survey: Disability Days, United States,

1971, Table 11 (DHEW Publication No. (HRA) 74-1517; Vital and Health Statistics Series 10, No. 90) (Washington, D.C.: U.S. Government Printing Office), 1974. We assume the pretransfer poor receive the same fraction of total benefits as the fraction of days lost from work that they accounted for. See end of note (j) for further explanation.

- p. Tabulations of the fraction of families receiving AFDC that were pretransfer poor.
- q. Estimated fraction of full-time students attending universities who were from pretransfer poor families. Basic data for 1974 giving distribution of full-time freshmen across posttransfer family income classes are from Laboratory for Research in Higher Education, Graduate School of Education, University of California, Los Angeles, The American Freshman: National Norms for Fall 1974, by Alexander W. Astin, Margo R. King, John M. Light, and Gerald T. Richardson. These posttransfer income class data are converted to pretransfer poverty statistics using method described in (j).
- r. Estimated fraction of all higher-education students from pretransfer poor families. See (q) for data reference. We took estimates based on the full-time sample and added two percentage points since part-time students are generally poorer.
- s. Same method as (e) but data on benefits to posttransfer poor come from U.S. Office of Management and Budget, Forms 50A and B from the fiscal year 1976 Budget, Manpower Special Analysis, unpublished.
- t. Same method as (h), but data from same source as (s).
- u. Same as (t) but tape tabulation restricted to veterans.
- v. Estimated fraction of full-time students from pretransfer poor families. See (q) for source of data.
- w. Same as (v), but only four-year public colleges.
- x. Same as (v) but excludes two-year colleges.
- y. Same as (v), but only for all four-year colleges.
- z. Method (h) but source of data on posttransfer poor's benefits is Manpower Report of the President (Washington D.C.: U.S. Government Printing Office), 1975.
- aa. Uses estimated percentage for corresponding federal program.
- bb. Same as (h), but restricted to households living outside SMSA's.
- cc. Same as (h), but restricted to school-age children (ages 6-18).
- dd. Estimated 1974 percentage by multiplying corresponding 1972 percentage by the growth in the percentage pretransfer poor households between 1972 and 1974. Used only when no useful data for 1974 could be located.

- ee. Weighted average of estimated percent of students attending public 2-year colleges, 4-year colleges and universities who were from pre-transfer poor families. (Source noted in (q)). Weights are the fraction of students attending all public institutions of higher education who attend a particular type of institution.
- ff. Same as (e), but restricted to the aged (over 65).
- gg. Same as (e), but restricted to central city residents of SMSA's.
- hh. Benefits go to professors, who are not pretransfer poor.

Table A-2

Selected Benefits per Pretransfer Poor Person and the
Pretransfer Poverty Gap, 1965-1974 (current dollars)

	Cash Transfers per Pretransfer Poor Person	Cash plus Selected In-kind Transfers per Pretransfer Poor Person ¹	Average Pretransfer Poverty Gap
1965	\$ 515	\$ 531	\$ 543
1968	687	827	645
1972	1083	1368	870
1974	1254	1729	1061

¹In-kind transfers included are food stamps, public housing, rent supplements, Medicare and Medicaid.

Table A-3

The Structure of Social Welfare Benefits for the
Pretransfer Poor, 1965 and 1972

	Percent of Total Benefits of the Poor		Percent of Total Spent on Program Category Received by the Poor	
	1965	1972	1965	1972
Income tested programs	24.3	34.6	84.7	80.4
Cash transfers	18.9	15.0	87.6	87.8
In-kind aid	3.7	11.7	73.9	75.5
Services	0.9	3.6	94.1	79.3
Human resources	0.9	4.4	72.5	72.4
Non income tested programs	75.7	65.4	36.8	34.7
Cash transfers	49.3	39.5	51.5	46.4
In-kind aid	7.9	10.0	46.1	45.8
Services	2.1	1.8	56.7	55.7
Human resources	16.4	14.1	18.4	18.0

Source: Plotnick and Skidmore, op.cit., appendix A.

NOTES

1. The "pretransfer poor" are defined as those persons living in families (or as unrelated individuals) whose incomes from private sources (earnings, property income, and private transfers such as alimony) fall below the federal government's poverty lines. Because private transfers are counted, these persons are more correctly labeled "pregovernment transfer poor," but for convenience we use the shorter term.

The federal government has published data on benefits received by the posttransfer poor from federal social programs. Our analysis differs by including state and local spending as well and by focusing on the pretransfer poor. Examining the posttransfer poor's benefits from social welfare spending ignores the fact that the level of posttransfer poverty depends on the distribution of cash transfers, which are themselves a major share of social welfare outlays.

2. Any costs to recipients of participating in a program is also omitted. For example, only the bonus value of food stamps is counted as part of SWE, not the total value of stamps issued.
3. Harold Wilensky, The Welfare State and Equality, (Los Angeles: University of California Press), 1975, p. 1.
4. We do include Community Action and Model Cities programs because of their antipoverty significance, even though both are aimed more at neighborhoods than individuals.
5. For a similar approach, see Ida Merriam and Alfred Skolnik, Social Welfare Expenditures Under Public Programs in the United States, 1929-1966, U.S. Department of Health, Education and

Welfare, Social Security Administration, Office of Research and Statistics, (Washington, D.C.: U.S. Government Printing Office), 1968. We have drawn heavily on this study, updated revisions appearing annually in the Social Security Bulletin, and unpublished data kindly provided by Mr. Skolnik and Ms. Dales for determining expenditures on SWE. The major differences between our list of SWE and theirs is that we exclude all administrative costs, research, and funds spent on active military men and their families, while they do not.

6. Figure for 1976 based on data reported in Alfred Skolnik and Sophie Dales, "Social Welfare Expenditures, Fiscal Year 1976," Social Security Bulletin, January 1977, p. 5. We do not provide detailed analysis for years beyond 1974 because the latest year for which SWE's benefits for the pretransfer poor can be accurately computed is 1974.
7. On this point, see Robert Lampman, "Scaling Welfare Benefits to Income: An Idea that is Being Overworked," Policy Analysis, Winter 1975, pp. 1-10.
8. Of course, the politics of redistribution are no less nettlesome than the politics of resource allocation and may well be more so. Critics of transfers are not only concerned with government control over resources, but also worry about the possible disincentive effects of large transfer benefits upon both recipients and taxpayers.
9. See John Palmer, "Government Growth in Perspective," Challenge, May-June 1976, pp. 42-44.

10. Figures for intervening years fell below this value. Since 1965, federal nontransfer SWE have increased the share of GNP they absorb, but the long run trend has been flat.
11. Wilensky argues that economic growth is the most important determinant of spending on cash transfers and health. Harold Wilensky, op.cit., ch. 2.
12. See Lee Rainwater, What Money Buys: Inequality and the Social Meanings of Income, (New York: Basic Books), 1975; and Robert Kilpatrick, "The Income Elasticity of the Poverty Line," Review of Economics and Statistics, August 1973, pp. 327-332.
13. William Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," American Economic Review, June 1967, pp. 415-426.
14. We will not attempt a careful explanation of why social welfare programs came to exist in the first place. Such a topic would take us far afield. For summaries of thought on this major issue, see Dorothy Wedderburn, "Facts and Theories of the Welfare State," in Milton Mankoff (ed.) The Poverty of Progress: The Political Economy of American Social Problems, (New York: Holt, Rinehart and Winston), 1972, pp. 190-206; and Jeffrey Galper, The Politics of Social Services, (Englewood Cliffs, N.J.: Prentice Hall), 1975, ch. 2.
15. The growth rate after 1965 is truly different than earlier rates and not an artifice of choosing 1965 as the breaking point. Even in the early 1960s, growth rates were around 5 percent. Real SWE per capita then began growing at better than 8 percent a year after 1965, except for the 1972-1974 years, when growth was unusually sluggish (because the inflation

rate was so high). The figures below should make this clear.

<u>Time Period</u>	<u>Annual Growth Rate of Real Per Capita SWE</u>
1940-50	3.1%
1950-60	4.3
1960-63	5.7
1963-65	4.6
1965-68	8.8
1968-72	8.1
1972-74	1.9
1974-76	8.6

Note: Figures for periods prior to 1965 and for 1974-76 derived from SWE as determined in footnote to Table 1.

16. Of the federal programs included in our list of SWE for 1974, over one third did not exist in 1965, or were funded at such low levels in that year that we classify them as "recent" programs.
17. The number of recipients rose 26 percent between 1968 and 1974, while total outlays climbed 136 percent.
18. The economic environment surrounding the new programs of the 1960s contrasts starkly with the depression era that ushered in the first burst of major federal social welfare programs. It would appear that widespread economic crisis is not an essential prerequisite for increased involvement of government in social welfare concerns.
19. Robert Lampman, "What Does It Do for the Poor? A New Test for National Policy," in Eli Ginzberg and Robert Solow (eds.) The Great Society, (New York: Basic Books), 1974, pp. 66-82; and Robert Haveman, "Introduction: Poverty and Social Policy in the 1960s and 1970s - An Overview and Some Speculations," in Robert Haveman (ed.) A Decade of Federal Antipoverty Programs: Achievements, Failures and Lessons, (New York: Aca-

- demic Press), 1977, p. 1-20.
20. For a different approach to a similar set of issues, see Mayer Zald, "Demographics, Politics, and the Future of the Welfare State," Social Service Review, March 1977, pp. 110-124.
 21. This may already be happening. If we deduct \$15 billion of the 1976 SWE as a rough correction for the extraordinary expenses of the recession, real per capita SWE grew 6.6 percent a year between 1974 and 1976, which is well below the 1965-1972 pace.
 22. Palmer, op. cit., has argued along similar lines.
 23. For a response to the critics and an ardent defense of the Great Society, see Sar Levitan and Robert Taggart, The Promise of Greatness. (Cambridge: Harvard University Press), 1976.
 24. National Center for Education Statistics, Projections of Education Statistics to 1985, (Washington, D.C.: U.S. Government Printing Office), 1977, p. 14.
 25. National health insurance may not create an enormous addition to SWE for several reasons. Medicaid will be eliminated (in some proposals); its costs will not be piled on top of the insurance program. Second, and more important, if costs of such insurance are largely paid by premiums from persons and employers, with the federal government acting as financial intermediary, then net SWE will rise only by the difference between benefits paid and premiums collected.
 26. Fraud by recipients does give someone a benefit, even if he is not entitled to it!
 27. For example, spending on transfers influences work effort. Salaries paid to job counselors keep some counselors out of

poverty who, if the counseling program did not exist, may have been poor themselves.

28. Because we have not treated taxes, this view is still incomplete. However, rough estimates suggest that if total taxes paid by the pretransfer poor were divided between SWE and non-SWE outlays, in proportion to the share of total public spending on these two categories of programs, the taxes "earmarked" for SWE would equal about 10 percent of the poor's benefits from SWE.
29. For analyses of this vexing situation, see Robert Plotnick and Felicity Skidmore, Progress Against Poverty: A Review of the 1964-1974 Decade, (New York: Academic Press), 1975, ch. 5; and Peter Gottschalk, "Earnings, Transfers and Poverty Reduction," mimeo, 1977.
30. As a simple control for these changes, we divided the fraction of SWE going to the pretransfer poor by the incidence of pretransfer poverty among persons. The results, in temporal order, for the 5 years in Table 4 are 2.0, 2.3, 2.3, 2.2, and 2.2.
31. The figures in column 2 include aid from all food, housing, and medical programs (except mental health programs, which we classify as a service). If we look at only cash transfers plus the five central in-kind transfers (food stamps, public housing, rent supplements, Medicare and Medicaid), average benefits still exceed the average pretransfer poverty gap except for 1965. (See Table A-2 in data appendix.)
32. See Plotnick and Skidmore, op.cit., ch. 6; and U.S. Congress, Studies in Public Welfare, various papers, (Washington, D.C.: U.S. Government Printing Office), 1972-1974.

33. Even if we restrict attention to cash and in-kind benefits, needs tested aid equaled but 30 percent of the total.
34. Plotnick and Skidmore, op. cit., p. 68.
35. Many readers may be surprised by these low percentages. Perhaps the following line of thought can clarify why this is so.

We suspect that, to many people, the "real" poverty problem -- the one for which antipoverty policy should be designed -- is probably not the whole pretransfer poverty population as we have defined it. Rather, the needy population is likely envisioned as those persons who remain poor after social insurance transfers are added to their private incomes. Social insurance benefits are not income tested; they are granted for other reasons (retirement, disability or death for Social Security; loss of job for unemployment insurance; etc.). Payments are commonly felt to have been earned and are not seen as welfare.

Suppose this suspicion is correct and this perspective is shared by most citizens and taxpayers. Then to look at the "real" poverty problem for designing antipoverty policies, or to study government aid to the "real" poor, we should examine the prewelfare poor (i.e., those in poverty after all non income tested transfers are counted) and measure the benefits this group receives from social programs. If this research strategy were chosen, surely we would find income tested programs providing a much larger share of this group's total SWE benefits than such programs do for the pre-transfer poor as conventionally defined.

Because the prewelfare poor comprise a smaller group than the pretransfer poor, the share of total SWE they receive would be well below the figures in Table 4. It is not clear whether per capita benefits would be bigger or smaller.

36. There is usually an asset test as well.
37. A simple statistical technique can provide a check to this reasoning. Suppose the distribution of state-local SWE among the eight program categories used in this section was identical to the federal one. But assume the share of benefits going to the poor from each category was still the same. Then, under this assumption, the state-local sector would have channeled 50 percent of its SWE to the poor, which is in league with the actual federal percentage. Hence, it is the different distributions of funds among program areas that has mainly been responsible for the relative "generosity" of federal SWE, not the higher fraction of funds benefiting the poor within program categories.
38. Data to support the conclusions are in the data appendix, Table A-3, available from the author.
39. For a related discussion, see Laurence Lynn, "A Decade of Policy Developments in the Income-Maintenance System," in Haveman (ed.) op. cit., pp. 99-102.
40. The 1972-1974 experience is suggestive in this regard, but not conclusive. The growth rate of per capita SWE for the poor in this period was lower than the rate for the nonpoor (this was not

so for 1965-1972) and income tested SWE declined in importance.

41. Lynn, in Haveman (ed.) op. cit., p. 100.
42. It is hard to say whether total benefits to the poor will rise at the same rate as the per capita benefit. This depends on what happens to the incidence of pretransfer poverty. If it falls in the wake of a strong economic expansion, total aid would grow more slowly than per capita aid for the poor and conceivably could even drop. However, we are not extremely optimistic about the prospects of pretransfer poverty dropping substantially.