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GOALS AND PURPOSES OF SOCIAL WELFARE EXPENDITURES

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ABSTRACT

Beginning with a brief examination of the dominant themes that have emerged from a century of social welfare policies, the paper examines present-day controversies over the appropriate course for welfare reform. It examines the conflicting goals of current social welfare expenditures in light of the continuing discussion of the equity-efficiency trade offs involved in particular income distributional and employment policies, considers the role of taxation in achieving social welfare goals, and looks at the broader social purposes that should motivate welfare reform.

Goals and Purposes of Social Welfare Expenditures

In this paper I examine welfare reform in the context of social welfare expenditures (SWE). Both terms have a variety of definitions--there is no universally accepted, standard usage. Below, we use the term "SWE" to cover what Ida C. Merriam, formerly of the Social Security Administration, originally defined as

> cash and medical benefits, services, and administrative costs for all programs operating under public law that are of direct benefit to individuals and families. Included are programs providing income maintenance and health benefits through social insurance and public aid, and those providing public support of health, education, housing and other welfare services.[1]

Social welfare expenditures came to $394 billion in 1978. They were equal in amount to 19.3% of GNP. (Cash transfers are, of course, not part of GNP.) Table 1 shows that since 1950 these expenditures by the federal, state, and local governments have risen much faster than GNP. In fact, they have more than doubled as a percentage of GNP in the past three decades. The principal categories of expenditures that they subsume are "social insurance," and "education." Social welfare expenditures now amount to 60% of all combined government expenditures.

"Welfare," it appears, is used by many writers to cover some or all of the expenditures classified in Table 1 as public aid, and other social welfare, as well as public housing. These three classifications

Table 1

Social Welfare Expenditures Under Public Programs as a Percentage of GNP, Selected Fiscal Years 1950-1978

Fiscal Year	Gross national product (in billions)	Total[a] Total	Total[a] Federal	Total[a] State-Local	Social Insurance	Public Aid	Health & Medical Programs	Veterans' Programs	Education	Other Social Welfare	Total Health & Medical Expenditures
1950	$264.8	8.9	4.0	4.9	1.9	0.9	0.8	2.6	2.5	0.2	1.2
1955	379.7	8.6	3.9	4.7	2.6	.8	.8	1.3	2.9	.2	1.2
1960	498.3	10.5	5.0	5.5	3.9	.8	.9	1.1	3.5	.2	1.3
1965	658.0	11.7	5.7	6.0	4.3	1.0	.9	.9	4.3	.3	1.4
1970	960.2	15.2	8.1	7.1	5.7	1.7	1.0	.9	5.3	.4	2.6
1974	1,361.2	17.6	10.1	7.5	7.3	2.3	1.1	1.0	5.2	.5	3.0
1975	1,452.3	19.9	11.5	8.4	8.5	2.8	1.2	1.2	5.6	.5	3.5
1976	1,625.4	20.4	12.1	8.3	9.0	3.0	1.2	1.2	5.4	.6	3.6
1977[c]	1,838.0	19.7	11.9	7.8	8.8	2.9	1.1	1.0	5.1	.5	3.7
1978[c]	2,044.0	19.3	-	-	8.6	2.9	1.2	1.0	5.0	.5	3.7

[a] Includes housing, not shown separately.

[b] Combines health and medical programs with medical services provided in connection with social insurance, public aid, veterans' services, vocational rehabilitation, and antipoverty programs.

[c] Preliminary estimates.

Sources: Alma McMillan, "Social Welfare Expenditures under Public Programs, Fiscal Year 1977," Social Security Bulletin, June 1979, p. 10, Table 3; Social Security Administration, Research and Statistics Note No. 2, Feb. 14, 1980.

accounted for 2.9%, .5%, and .1% of GNP, respectively, in 1978. However, some writers use the term more narrowly to mean only the cash benefits payable under Aid to Families with Dependent Children (AFDC) and General Assistance (GA). Supplementary Security Income (SSI) is also a cash benefit program but it has received less critical attention than the others because it, unlike the others, reaches those traditionally regarded as "the deserving poor," i.e., the aged, blind, and disabled. Cash benefits under these three programs amount to about 1% of GNP.

Table 2 shows more detail about what may or may not be counted as welfare. All of these expenditures are funded out of general revenues, unlike social insurance, which is largely paid for out of payroll taxes. Most of them are targeted to lower income people, and many are income- or means-tested. Only about a third of these expenditures take the form of cash benefits. A larger part is used to provide health care, food, and housing. (Note that Medicaid is the largest single welfare program.) The remainder is largely devoted to a range of social services from counseling to day care to training (note the overlap with education).

Goals of Welfare Reform

Welfare reform is another term which lacks a precise and agreed upon meaning. Undoubtedly the most famous of many reform efforts was that which led to adoption of a new poor law in early nineteenth century England. At that time, reform meant division of the poor into two groups, namely those expected to work and those not, and denial of "outdoor relief" for

Table 2

Expenditures for Public Aid, Public Housing and Other Social Welfare, by Type, 1977
(in billions of dollars)

Total	$64.8	
Cash	20.4	
AFDC and GA		$13.6
SSI		6.8
Health care	18.0	
Medicaid		17.6
Institutional care		.4
Food	8.7	
Food Stamps		5.4
Child nutrition[a]		3.3
Public housing	2.8	
Social services	5.8	
Nonmedical services		3.1
Child Welfare		.8
Vocational Rehabilitation		1.3
Special OEO and Action programs		.6
Other public aid[b]	5.9	
Social welfare, n.e.c.[c]	3.2	

[a]Surplus food for schools and programs under National School Lunch and Child Nutrition Acts.

[b]Work relief, other emergency aid, surplus food for the needy, repatriation and refugee assistance, and work-experience training.

[c]Indian welfare and guidance, aging and juvenile delinquency activities, antipoverty and manpower training programs, day care, child services, legal assistance, care of transients, and other unspecified welfare services.

Source: Derived from Alma McMillan, "Social Welfare Expenditures under Public Programs, Fiscal Year 1977," Social Security Bulletin, June 1979, pp. 4-7, Table 1.

those in the first category and enforcement of responsibility of relatives to contribute to the support of those in the second category. This reform was in part a reaction to the alleged failure of a kind of negative income tax known as the Speenhamland scheme, which paid benefits to the working poor. The reaction emphasized the need to deter malingering and to encourage work and thrift.

On the other hand, welfare reform in the later years of that century came to mean separating out groups of the poor for special consideration. Criminals, mentally ill persons, orphans, widows, veterans, the aged, and the disabled were among those singled out for study, concern and legislation. This categorical approach to welfare guided the federal government in the United States when it adopted the public assistance and social services titles of the Social Security Act in 1935. Since that time we have seen several themes competing for the label of welfare reform. One theme has introduced new categorical programs to make existing welfare programs more generous and to allow more people to qualify for them. Some of these reforms have been accomplished by the courts in extending the Constitutional rights of due process and equal protection of the laws to welfare recipients. Others have come about through Congressional establishment of national minimums in specific programs, e.g., SSI, which was adopted in 1972.

A second theme of recent years has been to cut back on eligibility for welfare benefits by pushing for relative responsibility and work-tests. This theme is, of course, reminiscent of the previous century, but is focused this time on the AFDC program and its population of families headed largely by divorced and separated women. Unlike some earlier themes, this one carries the emphasis on work to the point of creating public jobs for those on welfare and of subsidizing child care to enable the welfare mothers to take the jobs.

The third theme to claim the title of welfare reform is distinct from the other two. It emerged in the 1960s under the flag of the negative income tax (NIT). It featured elimination of categories among the poor, a minimum income for all, including the "working poor" who were not eligible for AFDC, no work-tests, and a moderate benefit-reduction rate designed to avoid strong disincentives to work. Some enthusiasts of NIT saw it as a replacement for all existing cash and in-kind social welfare benefits. President Nixon incorporated some NIT ideas in his 1969 welfare reform package of SSI (which passed) and the Family Assistance Plan (which did not). The latter, FAP, deviated from a pure NIT in that it was categorical (it excluded single persons and childless couples as well as the aged and disabled persons eligible for SSI); it featured a work-test; it had a high benefit-reduction rate (FAP, food stamps, and other programs together produced a combined benefit-reduction rate of 70% or more); it was not strictly a cash program (it offered child day care services to working mothers); and it proposed to create public jobs.

With FAP, NIT became identified as a substitute for AFDC. As such, it emphasized the second theme identified above. Alternatively, President Nixon could have designed NIT as a substitute for GA, the unemployed fathers segment of AFDC, and the minimum wage law. This would have meant a new categorical program for the working poor.

While the failure of FAP and the rejection of Senator McGovern's tax reform, which featured a $1,000 per person guarantee and a 33-1/3% benefit reduction rate, are often said to have signalled the demise of NIT, it is plausible to argue that its theme is not dead. It lives in SSI, the Food Stamp Program, the Basic Education Opportunity grant program, the earned income tax credit and other income-tested benefits.

It would appear that everybody is for welfare reform, but that there are contradictory ways to be a reformer. One is to create new categories of beneficiaries and new types of benefits and to make eligibility easier to attain. For some observers, the welfare explosion of the 1960s and early 1970s was the reform.[2] A second way is to tighten up on eligibility and to push people out into the world of work, even if this means creation of special jobs. A third is to abolish the maze of special welfare programs and replace them with a single cash benefit program based upon progressive income tax principles.

Clearly, the adversaries in this several-sided debate have different goals in mind. The first emphasizes compassion for the poor, who are seen as victims of systemic social and economic failure. The second highlights the loss of self-respect and withdrawal of potential labor time associated with welfare dependency. The third claims that the goal is to release the poor from paternalistic guidance and bureaucratic restrictions.

Goals of Social Welfare Expenditures

We said earlier that welfare programs are part of a broader pattern of SWE. The welfare programs listed in Table 2 in fact amount to only 16% of SWE. We may gain some new insights into the welfare reform controversies if we look at the goals and purposes of the larger system represented by SWE and the taxes levied to pay for it.

Economists are wont to characterize the purposes of public expenditures as pursuit of equity and efficiency. Government can presumably improve upon market outcomes by redistributing income and reallocating resources. Textbooks often relate equity gain to the reduction in inequality of the size distribution of income accomplished by expenditures and taxes. Efficiency has to do with gains in output associated with reallocations toward production of consumer goods most highly valued, and toward productive investments in physical and human capital. It is likely that there is a trade-off between equity and efficiency. Indeed, the lesson of economics is that there is no such thing as a free lunch.

It seems to be the general view of economists that SWE accomplish a considerable amount of redistribution but relatively little reallocation. That is to say, the distribution of final income--including nonmoney income--is less unequal than the distribution of market income, but the allocation of resources among goods and services is not much different than it would be if all SWE took the form of cash transfers. (For example, the consumption of food would be about the same if food stamps were converted to cash.) However, economists generally believe that SWE result in some loss of GNP because they increase the attractiveness of leisure and because the taxes paid to finance SWE reduce the capacity of people to save and thereby to increase the capital stock.

That particular formulation, which highlights the equity-efficiency trade-offs, is perhaps more prescriptive than descriptive of any nation's decisionmaking with reference to SWE. An alternative formulation is more inductive, based upon the record of announced purposes and of formulas of existing SWE programs and tax laws. In this approach the goals are thought to be revealed by legislative behavior. Thus the immediate goals of the American system of SWE would appear to be

- offsetting income loss
- helping people to buy essentials
- reducing income poverty
- sharing tax burdens fairly.

More than half of SWE in the United States are motivated by concern for losses of income associated with old age, disability, unemployment, and loss of a family breadwinner. This concern is not limited to those made poor by events beyond their control; the mere fact that income falls below its customary or expected level is deemed a sufficient basis for social intervention. Social insurance, which features contributions by workers and employers and benefits payable as a matter of contractual right, is a preferred method for offsetting loss. However, the same risks are also protected against by public assistance as a second level of defense. For example, an unemployed worker may receive unemployment insurance benefits first and public assistance benefits later. This goal is associated with the sharing of income loss during a recession, which may have the side effect of automatically stabilizing the economy.

Another substantial part of SWE is devoted to helping people buy essentials.[3] The leading example under this heading is public spending for education, which amounts to 5% of GNP (see Table 1). Free public education at elementary and secondary levels is provided as a civil right and funded out of general revenues. Parents are, of course, compelled to send their children of specific ages to school and hence must meet certain noninstructional costs of school attendance, including the forgone earnings of children, out of their own pockets. Higher education is typically not free, but governments may subsidize tuition and otherwise help students and their families meet the costs of going to college. Such help may or may not bear any relationship to financial need in the narrow sense, but it is given in recognition of the difficulties most families have in planning for--or borrowing for--the costs of college, and also in the faith that there are external benefits to be captured from encouraging more people to seek higher education.

The point about external benefits raises the question of whether the goal is simply to help people buy what they, as individual consumers, want, or whether the goal, and hence the standard for evaluation, is to provide education that will improve their capacity to produce. Should one count education benefits in the year the expenditure is made or in the year that extra income due to education is realized? Should health care expenditures be counted only if they result in lower mortality and morbidity? Interestingly, few writers ask whether one should count cash transfers only if we can prove that they make the recipients happier.

Similar considerations to those for education seem to underlie government expenditures for health care, which now amount to 3.7% of GNP, or about a third of total health care outlays. We appear to be moving toward the view that health care, like education, should be available as a civil right. On the other hand, housing and food are less touched by the civil right concept, but are apparently seen as essentials meriting public support. Social welfare expenditures for the latter two items combined amount to less than 1% of GNP and are highly concentrated on the poor. It is interesting that housing outlays make up a much larger part of SWE in some welfare states other than the U.S., e.g., the U.K. and Sweden.

The third immediate goal of American SWE is to reduce income poverty. This goal, enunciated by President Johnson in 1964, encourages a tilt of SWE in the direction of those people who fall below a recognized national minimum in terms of income. Hence, it requires us to ask whether SWE that offset income loss or help people buy essentials really do reach the poor as well as others. Can we design cash transfers to help those who have chronic low earnings but have not suffered an income loss? It also asks whether the programs we have traditionally addressed specifically to categories of the poor are the best possible. Can the whole range of SWE be managed so as to contribute, along with growth in pretransfer income, to year by year reduction in the number of Americans with below poverty line incomes? At present, almost 40% of SWE, that is, about $150 billion worth of the goods and services as well as the cash transfers provided under these public programs, go to people whose pretransfer money income is below the poverty line in the year of receipt. The 20% of persons in the latter group, who receive about 2% of pretransfer money income, receive about 10% of total income, defined to include all SWE.[4]

These numbers about the pro-poor incidence of benefits should be taken with a grain of salt. There is what we may call a secondary beneficiary in many cases, that is, a person who would have made a private payment to the poor beneficiary if the public program did not exist. For example, an elderly person might have been supported by his adult children, who may or may not be poor. The calculations above use as the counterfactual a world with no private transfers and thus show more redistribution toward the poor than may be credible.

A critic may ask, are we sure that the number of posttransfer poor is less than it would be if SWE were only half as great, that is $1,500 per pretransfer poor person instead of the present $3,000? That question is not easy to answer because it requires assumptions about behavioral responses to the availability of SWE benefits and to the "poverty trap," or high benefit-reduction rates (which are particularly severe for the poor) associated with those benefits.

One of the long-standing debates in this field is whether you can get people out of poverty by "helping" them, or whether you need to induce or coerce them out of "the culture of poverty" by what Sidney and Beatrice

Webb called "the exercise of plastic power." There can be no doubt that the coercive approach to poverty is still followed to some degree, but it is less popular than it once was.

We now move to the fourth immediate goal of the SWE system, namely sharing the tax burden fairly. Inductive inquiry into the goals of the American tax system leads to the finding that we appear to want a set of combined tax rates that are roughly proportional throughout most of the posttransfer income range. Progressivity does not begin short of the top 5% or so of income receivers, according to the consensus view of tax incidence. (However, if one holds that property taxes, sales taxes, and payroll taxes are progressive, then one is led to believe that our tax system is progressive throughout.) Although the level of taxes is higher than it was, the pattern across income ranges has changed very little in the last several decades.

We apparently want our income taxes to recognize family size, to offset extraordinary medical expenses, to encourage private health and retirement insurance, and also to subsidize home-ownership and child day care. Through exemptions, exclusions, deductions, and credits, income tax expenditures duplicate SWE's pursuit of the goals of offsetting income loss and helping people buy essentials. The idea of the NIT is to extend the income tax mentality to pursue the goal of reducing income poverty. One example of this in the current tax law is the earned income refundable credit for low income families with children.

Some Broader Goals

The four immediate goals of the SWE system relate to the secondary distribution of income. The primary distribution arises in the market place, but it too is subject to social goals, the most important of which are high employment and positive growth in per capita production. Attainment of these goals, which may be aided by skillful application of fiscal, monetary, and other policies, will ease the problem of reaching the goals of the secondary distribution. Conversely, high unemployment and negative growth will place a heavy burden on SWE.

There is a school of thought which teaches that we can alter the primary distribution by tax incentives for employers to hire disadvantaged workers, by carefully targeted public job creation, and an egalitarian income policy--that is, without relying upon conventional SWE--and thereby increase the share of pretransfer income going to the poor. Some argue that such a shift could be engineered even at a time when unemployment is high and economic growth is slow. However, most would agree that such policies have a better chance of succeeding (though they might think such policies are then unnecessary) if the economic climate is more favorable.

The four immediate goals for the secondary distribution and the two for the primary distribution are reflective of still deeper goals we hold for our society. These include individual freedom of choice and equality of opportunity. (Incidentally, inequality in the size distribution of income is not a good indicator of attainment of equality of opportunity; measures of intergroup, e.g., black-white, income differences may be more meaningful.) This complex set of goals has some internal conflicts; pursuit of one goal may entail costs in terms of loss with respect to another goal. For example, high offsets to income loss may cause a reduction in employment and hence a slowing of economic growth. Or, steps to reduce inequality of opportunity may infringe on some individuals' freedom of choice.

Similarly, there are problems of getting an appropriate balance among efforts to achieve each of several goals. Here we confront an economist's paradox. There is such a thing as too much of a good thing--or less than the optimum amount of a bad thing, such as pollution or poverty--and that can be avoided only by balancing benefits and costs at the margin. For example, suppose we were considering adding $50 billion to SWE. Putting the whole amount into, say, helping people buy essentials might add less to social utility than putting part of it into reducing (money) income poverty. Although there may be wide agreement that the goals enumerated above are the operative goals for policy choice, there is less agreement about the priorities among them.

Welfare Reform Revisited

Let us return now to the question of welfare reform. A review of the goals of SWE and of the broader goals for the primary distribution turned up the following points which may enable a better evaluation of the controversy in welfare reform.

- Most SWE benefits go to the nonpoor.
- The SWE benefits received by the poor far exceed the welfare benefits listed in Table 2.
- The recipients of welfare are mostly poor, but not all the poor receive welfare.
- Not all of the ways to reduce income poverty are listed in Table 2, nor even in Table 1. (Tax reform and job creation are two that are left out.)

- The goals for welfare, which is part of the SWE system, are the same as the goals for SWE.

- Pursuit of these goals presents harsher disincentives for the poor than for the nonpoor. This is because SWE are a larger part of total income for the poor than the nonpoor, and because benefit-reduction rates are higher for them.

- Pursuit of these goals differentially restricts freedom of choice for the poor. This is because a disproportionate part of their SWE benefits take the form of goods and services (some of them designed especially for the poor) as opposed to money.

The challenge for welfare reform is the same as that for SWE reform, namely, to achieve, by recourse to reason and experience, a desirable balance among (1) the four goals of SWE and the taxes to pay for them, (2) the primary distribution goals of high employment and positive economic growth, and (3) the broader social goals of freedom of choice and equality of opportunity.

NOTES

[1]Alma McMillan, "Social Welfare Expenditures under Public Programs, Fiscal Year 1977," Social Security Bulletin, June 1977, p. 7. A time series has also been developed on "private social welfare expenditures." Such expenditures are not discussed in this paper.

[2]What attracted the most attention was the rise in the number of AFDC recipients, from 3.1 million in 1960 to 11.1 million in 1972. It has tended to decline since 1972 and stood at 10.3 million in May of 1979.

[3]One might characterize SWE designed to offset income loss as helping people to buy leisure.

[4]One may ask whether some SWE, such as those for education, should be counted as capital transfers rather than as income transfers.

RESOURCES

Five related papers by the author are listed below. Each of the papers has been reprinted by the Institute for Research on Poverty, University of Wisconsin-Madison.

"What Does It Do for the Poor? A New Test for National Policy." The Public Interest, January 1974. (Reprint 117)

"Social Accounting for Transfer," The Personal Distribution of Income and Wealth, ed. James D. Smith. New York: National Bureau of Economic Research, 1975. (Reprint 143)

"Employment versus Income Maintenance," Jobs for Americans, ed. Eli Ginzberg. The American Assembly, Columbia University. New York: Prentice Hall, 1976. (Reprint 217)

"Concepts of Equity in the Design of Schemes for Income Redistribution," Equity, Income and Policy, ed. Irving L. Horowitz. New York: Praeger Publishers, 1977. (DP 296-75)

"Labor Supply and Social Welfare Benefits in the U.S.," Concepts and Data Needs, Appendix Volume 1. Report of the National Committee on Employment and Unemployment Statistics. Washington, D.C.: Government Printing Office, 1979. (Special Report 22)