Session 6: The budgetary and social costs of antipoverty policy

In view of Americans' deep-seated beliefs, there are scant grounds for optimism that the lot of this nation's poor will soon be radically improved.

Gary Burtless

The concept of income poverty is a statistical construction capable of interesting economists and policy analysts, but lacking . . . any political reality that could animate national action.

Hugh Heclo

This session covered the questions that must ultimately be asked: What are the economic limits to social expenditures? How much spending will the political electorate tolerate? What are the public's preferences toward policies for the poor?

The economic constraints

First reviewing trends in public spending on the poor, Gary Burtless noted that the in-kind component of means-tested transfers has steadily risen since 1965, while the cash component has declined. The dollar values of that past and projected spending are shown in Figures 2 and 3. In proportional terms, benefits in kind rose from 1.2 percent of GNP in 1965 to almost 3 percent in the 1980s, whereas cash public assistance declined from 1.1 to 1.0 percent over those same years. Burtless speculated that the lower percentage of cash aid may indicate the willingness of voters to tolerate income poverty in general, whereas the rise in noncash assistance may signal their unwillingness to let specific types of needs go unmet—food, essential medical care, minimal housing. It would appear that the public makes a distinction between deserved and undeserved conditions of poverty, a point covered in political terms by the companion paper in this session.

Burtless's analysis showed that means-tested transfers, both cash and noncash, did indeed reach those they were intended to aid, but their amount was too small to remove many recipients from poverty. Instead, it is those who receive both welfare *and* non-means-tested benefits—social insurance payments—who are most often boosted over the poverty threshold.

Social insurance programs account for a larger share of GNP, having risen from 3.3 percent in 1966 to 7.8 percent in 1983 (see Figure 4). None were specifically designed to eliminate poverty, since their goal is to protect workers and their dependents against earnings losses from retirement, death, or disability, and to afford protection against extraordinary health costs incurred by the elderly and disabled. Large classes of the poor, especially the long-term unemployed and low-wage workers, receive little or no help from those programs, but nearly all middle-class and affluent workers can expect to enjoy social insurance benefits at some time in their lives. Yet those benefits are more important than are means-tested transfers in bringing people out of poverty. An estimated 64 percent of social security and Medicare benefits go to those whose monthly pretransfer incomes are below the poverty line, and one-half of the poverty gap is closed by those two programs alone.

The "human capital" programs—federal educational aid, work and training programs—have always represented a much smaller fraction of GNP and have undergone more ups and downs than the other two types of social expenditures. The combined total spent on human capital investment for the poor rose from almost nothing in 1964 to 0.85 percent in 1978, and has since fallen to less than 0.45 percent. Burtless emphasized that income assistance and human capital

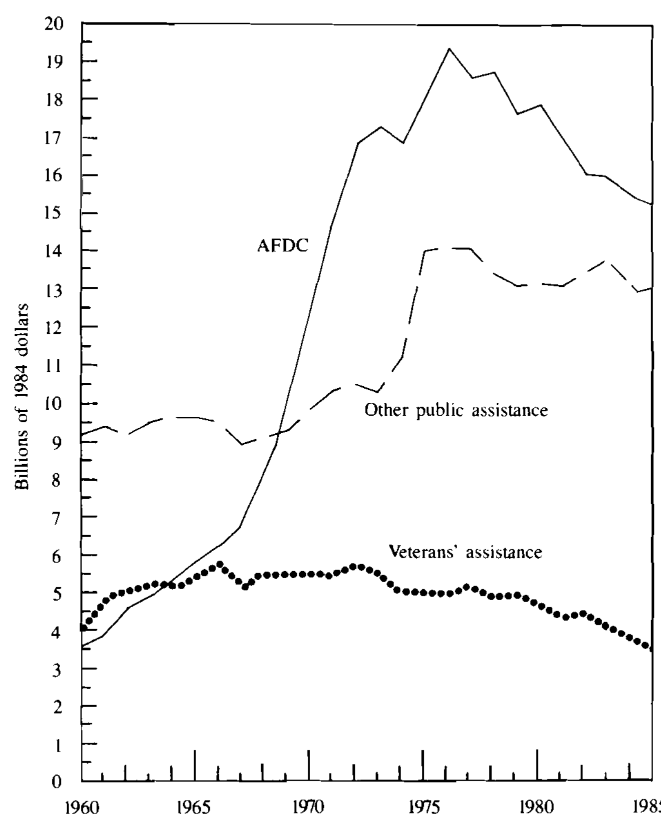

Figure 2. Outlays on Cash Assistance Programs, Fiscal Years 1960–85

Source: Gary Burtless, "Public Spending for the Poor: Trends, Prospects, and Economic Limits," Institute for Research on Poverty, Conference Paper, revised February 1985. Data from publications of the U.S. Department of Health, Education, and Welfare; U.S. House of Representatives, Committee on Ways and Means, *Background Material on Poverty* (1983); *Social Security Bulletin, Annual Statistical Supplement, 1983*, and federal budget, various years.

investment are not really substitutes: training and education programs are a gamble on the future, while cash and in-kind aid are directed primarily at present improvements in economic well-being.

Limits to social spending

Are there penalties that society must pay for disbursing funds on social programs? Responding to the charge that they lower national output, Burtless pointed out that such spending does not by itself reduce GNP—if one additional dollar is raised in taxes and redistributed to the poor as transfers, national economic output will not be directly affected (although there are indirect effects, noted below).

Burtless identified a basic long-term threat to economic growth at present as the federal deficit, which he charged uses up scarce domestic saving and thus reduces investment in capital formation. Social insurance programs contribute little to that deficit, since they are largely supported by taxes earmarked for them, but public assistance, like most other types of government spending (including that for national defense), is financed out of general revenues. Federal revenue is now so much less than expenditure that ways are being sought to cut back on spending, in the absence of tax increases to raise revenues. The limit imposed by the deficit is not, however, economic so much as political, Burtless emphasized: "In the long run, setting an economically defensible level of spending for the poor must depend on society's willingness to tax itself in order to pay for that spending" (p. 48).

Two penalties do result indirectly from social spending. The taxes raised for it and the spending itself may lower the savings and work effort of both beneficiaries and taxpayers to some degree, although the magnitude of such effects has been debated for years and agreement is still not in sight. Burtless argued that even if merit is granted to the position that savings are reduced, this objection pales in the shadow of the large federal deficit that soaks up much of the private savings that are available. A number of studies have shown that transfers reduce labor supply, although the degree is uncertain. These two indirect effects can be regarded as an economic constraint—the price that is to be paid for increased well-being of citizens at the lower end of the income scale.

To put the U.S. experience in perspective, Burtless drew comparisons of the relationship of social welfare expenditures and economic growth in six major industrial nations

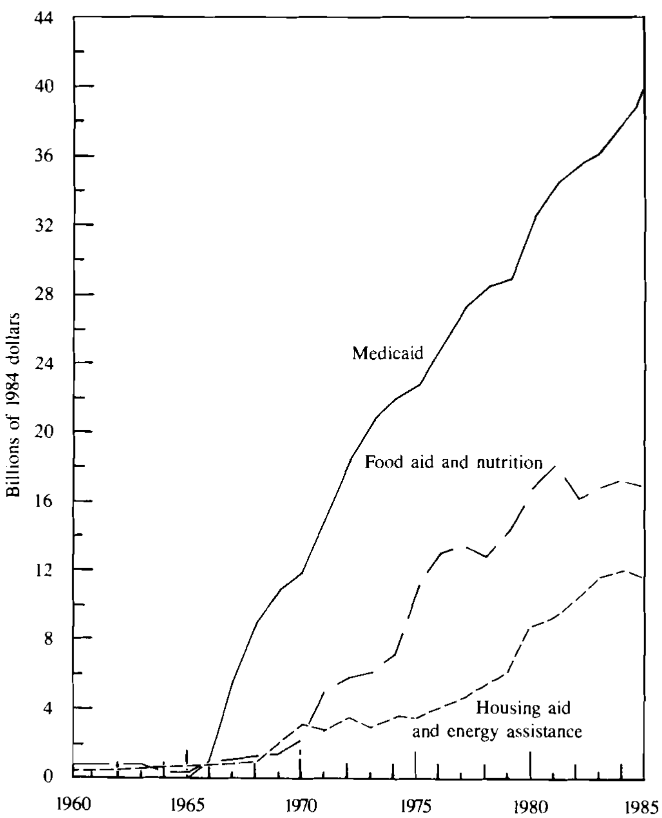

Figure 3. Outlays on In-Kind Assistance, Fiscal Years 1960–85

Source: See Figure 2.

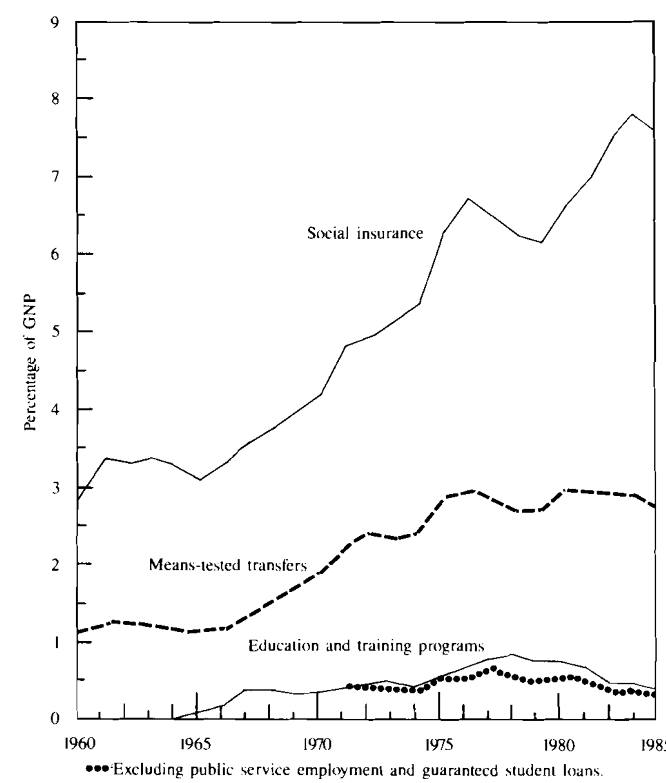

Figure 4. Poverty-Related Spending as a Percentage of Gross National Product, Fiscal Years 1960–85

Source: See Figure 2.

from 1960 to 1981. Great variation was found, as shown in Table 5. Japan has spent the least on social programs but has had the highest growth rate. As a percentage of GDP, social expenditures in the United States were only slightly higher than Japan's in 1981, but the U.S. growth rate was relatively low. In France, Germany, and Italy, social expenditures began at a higher level and rose at a faster rate than in the United States, yet each enjoyed a more rapid per capita income growth than did the United States. This evidence suggests that generous redistribution can coexist with more rapid economic growth. Burtless concluded that the limits to redistributional policy were in the end a matter of political, not economic, choice:

> Americans may in fact have a more intense taste than Europeans for strict equality in the distribution of political and judicial rights. But the preference for equality does not extend to the economic sphere. Greater economic equity in the U.S. would require that a highly prized distribution mechanism—the market—be replaced by a more despised one—government interference (p. 61).

The politics of antipoverty policy

Americans' preferences are not a simple matter of tastes for equality, nor are they directly represented in public policy. Our political structures and processes, Hugh Heclo stated at the outset of his presentation, determine which elements of any intellectual agenda will be translated into action. His analysis of historical trends, public preferences, and institutional capabilities singled out those items on an antipoverty agenda that the American public would be more likely to accept or reject.

Appearances to the contrary, the New Deal did not leave a strong base for later construction of programs for the poor. Its relief programs were directed mainly at the employable; the attitude toward the unemployable and chronically poor was essentially that they should go elsewhere, "into the labyrinth of state and local general assistance or go away into a new and better future when social insurance would prevent all but the most extraordinary occurrences of destitution" (p. 8).

Partly because of this uncertain legacy and partly because of its own features, the Great Society's programs suffered from four political weaknesses. First, the policy community, composed of members of the executive branch and those persons "shuffling between government and the academy," had few enduring links with the politicians whose support was essential for a sustained antipoverty agenda. Second, reform efforts were identified with a particular president's persona and consequently suffered when public support for that president waned. The third defect lay in the vulnerability of a political coalition dominated by blacks, who succeeded in mobilizing grass-roots support but in turn provoked a backlash that undermined attempts to better the condition of the poor in general, both black and white. Finally, the political compromises required to obtain legislative passage of antipoverty programs made their operational failure more likely. For example, to accommodate the powerful local political forces represented by state social service bureaucracies, school districts, and private providers, the antipoverty programs were divided among a number of federal agencies and were operated through loose forms of

Table 5

Social Expenditure and Economic Growth in Six Industrialized Countries, 1960–81

	Social Expenditure as Percentage of GDP[a]		GDP per Capita	Annual Growth in GDP per Capita
	1960	1981	1981[b]	1960–81[c]
Germany	18.0%	26.5%	$11,080	3.1%
France	13.4	23.8	10,550	3.6
Italy	12.7	22.7	6,120	3.6
United Kingdom	10.3	18.9	8,880	1.8
United States	7.3	14.9	12,650	2.1
Japan	4.0	13.8	9,610	6.4

Source: Gary Burtless, "Public Spending for the Poor: Trends, Prospects, and Economic Limits," Institute for Research on Poverty, Conference Paper, revised February 1985, Table 3. Data are from publications of the Organisation for Economic Co-operation and Development.

[a]Government outlays on pensions, health care, and other income maintenance as a percentage of gross domestic product.
[b]Measured in U.S. dollars at 1981 prices and exchange rates.
[c]Measured in constant 1970 prices.

national, state, and private sector cooperation. The end result was dilution of effort.

In sum, neither the New Deal nor Great Society eras laid any firm political foundations for antipoverty commitments.

Preferences and institutional constraints

Heclo turned from these historical observations to analyses of the public preferences that seem to shape what will be politically acceptable. Information drawn from surveys and opinion polls over the past twenty years indicates that Americans do approve of making the federal government the dispenser of aid to the poor. This attitude marks the fading of principled "states rights" objections to federal activity, which Heclo suggested is probably the major legacy of the New Deal and Great Society. At the same time, the public regards as suspect any large social theories or grand ideological justifications concerning national action in social policy.

There is, and long has been, general support for the idea that the needy should be helped through large-scale social programs such as education, pensions, and health care. But the electorate views cash assistance programs with less favor, probably because a strong belief in the work ethic makes suspect any programs offering non-work-related benefits to people of employable age who are not physically incapacitated—the "undeserving" poor.

Heclo then sketched the particular features of our political institutions that shape the way in which these general preferences are put into effect. First, the diffusion of effective power within the executive, among various parts of Congress, and between different levels of government encourages policy advocates to overdramatize the problems they wish to solve and oversell the solutions they have to offer. This in turn serves eventually to undermine support when reactions set in against the overpromising and underperforming.

Second, because of the diminished power of congressional and party leaders, distributive coalitions have to be formed to obtain passage of enabling legislation. Representing a variety of constituencies, such coalitions are inclined to spread program benefits across many districts, thereby making it impossible to concentrate effort where needs are greatest.

The character of the national bureaucracy also thwarts effective delivery of help to the needy. Marked by a fragmentation of jurisdictions that reflects and reinforces comparable divisions within Congress, effective bureaucratic direction is rarely possible. And yet purposeful coordination of a variety of programs is precisely what is required to meet the range of needs represented among the poor. Bureaucratic diffusion has especially hampered efforts in the very area that the public strongly supports: work-oriented programs for the poor. Such programs have consistently been marred, in Heclo's view, by administrative inefficiencies, vacillating objectives, and bungled relations with the private sector.

The general result of these political features is a stinginess of effort and a permissiveness of purpose that often leave the poor unassisted and the public dissatisfied. Heclo concluded that the concept of income poverty is an analytical construct without a political constituency. "The main political problem with antipoverty policy is that it is antipoverty policy" (p. 47). Only when they are afforded the protective coloration of a larger social agenda, as in the antipoverty features interwoven with the more general social security programs, can antipoverty efforts receive the political backing they require.

Discussion

James Patterson noted that both papers described the political salability of social security, in contrast with the obstacles that lie in the path of policy directed solely toward the poor. Patterson stressed the historical forces behind the stinginess of the American commitment to public welfare. The abundance of their land of plenty has traditionally led the American people to offer opportunity, a hand up, rather than welfare, a handout, since ample natural resources were thought to be available for any who wished to take advantage of them. And the diversity and complexity of our society have impeded development of the consensus needed for a strong commitment to public spending for the poor.

Patterson felt that both papers overlooked an important reason for the especially harsh tone of current American attitudes toward the poor; namely, the view that an undeserving underclass is developing, consisting disproportionately of minorities, sexually loose welfare mothers, drug addicts, and lazy dropouts. This view of a "new" poverty, in combination with economic uncertainty, makes it more and more difficult to sell antipoverty policy to the electorate.

John Palmer interpreted the main lesson of Heclo's paper to be that the complex set of public attitudes and preferences detailed by the author should play a greater role in the design of federal policies for the poor.

To the limits on social spending described by Burtless, Palmer added another broad constraint: the need to choose, over the next decade, among competing worthy objectives in a world of scarce resources. Is it better, for example, to reduce social insurance or means-tested programs if domestic spending is to be further reduced because of the federal deficit? If budget restrictions lessen, should priority be given to expanding public assistance and/or employment programs, or to tax relief for the poor? The answers involve value judgments, but may nevertheless be required, and will have considerable consequences for the economic welfare of the poor.■