82-70

INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

ON THE STIGMA EFFECT AND THE DEMAND FOR WELFARE PROGRAMS: A THEORETICAL NOTE

Burton A. Weisbrod

UNIVERSITY OF WISCONSIN ~ MADISON

ON THE STIGMA EFFECT AND THE DEMAND FOR WELFARE PROGRAMS: A THEORETICAL NOTE

Burton A. Weisbrod

The research reported here was supported by funds granted to the Institute for Research on Poverty at the University of Wisconsin by the Office of Economic Opportunity pursuant to the provisions of the Economic Opportunity Act of 1964. The conclusions are the sole responsibility of the author. The author wishes to thank R. Haveman and A. Holtmann for helpful comments and discussion.

November 1970

ABSTRACT

Many factors influence the extent to which persons who are eligible for public (or private) aid program actually receive the aid. In predicting the degree of utilization of any particular aid program, a potentially important variable is the marginal stigma cost, the added stigma incurred by a person who accepts the benefits from an incremental aid program for which he is eligible.

Empirical examination of marginal stigma costs is needed, as is greater attention to the relationship between these costs and the manner in which aid programs are designed and administered. Interprogram variation in the difference between the present value of marginal benefits available to an eligible person and the present value of the marginal costs--including stigma costs--of obtaining the benefits, is likely to be at the root of the observed differences in the utilization rates for various aid programs.

ON THE STIGMA EFFECT AND THE DEMAND FOR WELFARE PROGRAMS: A THEORETICAL NOTE

Burton A. Weisbrod

There are many factors influencing the extent to which persons who are eligible for some public (or even private) aid program actually receive the aid. All of the factors, however, may be thought of as forms of costs associated with obtaining the particular benefit available under the given program. These include costs of information about the existence of the program and rules of eligibility; costs of obtaining the aid--for example, the opportunity cost of the time required to fill out forms, to wait in a line, to travel to the place where aid is dispensed, and so forth; and costs in the form of the psychological "stigma" effect of accepting the aid.

This note deals only with the stigma effect and attempts to state in rather formal terms a definition of that effect and the conditions under which the stigma may be expected to exert a small or a large influence on demand for (utilization of) aid programs by rational, utility-maximizing persons.[1] No normative conclusions are drawn; the paper is entirely at the positive, predictive level.

Even before we define the stigma effect carefully, it seems clear that treating such an effect within a benefit-cost framework has substantial analytical value. At a most general level the approach suggests that a change in the stigma cost will change the quantity of welfare aid demanded, as will a change in the magnitude of benefits. It also suggests that tradeoffs are possible; there may be a <u>decrease</u> in the stigma cost that will have the same impact on program utilization--the number of eligible persons who actually participate in the program--as will a particular <u>increase</u> in the amount of benefits.

It is noteworthy, however, that an increase in program utilization that is brought about by an increase in benefits (shift in demand for the program) will ceteris paribus <u>increase</u> the total stigma costs borne by the beneficiaries. At the higher benefit level it will pay eligible people to accept higher stigma costs rather than to forego participation in the program. Since public policy can alter both the benefits available under a particular program and the costs--including the stigma costs--of obtaining the benefits, it is important to understand the consequences of each approach.

An Operational Measure of the Stigma Effect

It is dangerous to propose a simple measure of a complex psychological phenomenon. Any such measure is certain to be incomplete and thus not fully in accord with the varied and multidimensional concepts of "stigma" that users of the word have in mind. It is useful, therefore, to think of there being more than one type of stigma, with this paper concentrating on only one. The proposed definition focuses on the desire of the "poor" or "needy" to retain self-respect, dignity, and acceptance from the rest of society, and in particular the desire to not have other people know about their poverty or about such other aspects of their private lives as their marital situation. (In the remainder of this paper we will identify stigma only with concern about other people's knowledge about one's poverty, but it should be understood that this is intended to include concern about one's private life.)

A stigma may be attached to accepting aid even if the recipient is the only one who knows about the aid simply because the individual dislikes receiving "aid." This "internal" stigma effect, however, is likely to be beyond the control of policymakers, except insofar as aid programs can be thought of as "insurance," "pensions," or other nondemeaning transfers. An illustration may help to point up the distinction between the internal stigma (with which this note does not deal) and the external stigma: the inclusion of some nonpoor persons among those eligible for benefits may or may not reduce the internal stigma cost felt by an eligible person, but it is very likely to reduce the external stigma cost, which depends on the number of persons who know that a given poor beneficiary actually is poor.

Identifying the (external) stigma cost with the number of people who know that the person is poor[2] does not imply that the relationship is necessarily linear. A range of increasing and decreasing stigma costs seems plausible, and the shape of this curve can have an important bearing on the observed demand for (utilization of) various programs of aid.

Some Implications of the Benefit-Cost Model

Treating stigma as simply a cost suggests that we examine the distinction between variable and fixed stigma costs, and the effects of each on program utilization.

The utilization (quantity demanded) of any aid program is posited to vary positively with the size of benefits available per recipient and negatively with the marginal cost of obtaining the benefits. The marginal stigma cost is assumed to be a component of marginal cost and to vary positively with the number of persons who learn of the recipient's poverty, as a result of his participation in a program. The marginal stigma cost is the additional stigma cost incurred as a result of a person's participation in an additional program or participation in an expansion of a given program.

These assumptions imply certain behavior regarding the utilization of welfare programs among those who are eligible. Each of the following five propositions is testable, although none is tested here.

Since utilization is a positive function of the (present value of) expected benefits from program participants:

1. Utilization is a positive function of the expected duration of the individual's utilization of the program. The stigma cost of accepting program benefits is largely, though not entirely, a fixed cost, incurred primarily at the time the individual chooses to participate in the program (and thereby indicates his poverty). Thus it will be more worthwhile incurring that cost the greater the (present value of) expected benefits. For a person who is only temporarily in distress, the fixed stigma cost--largely independent of duration of program participation--will diminish the profitability of participation.

2. Utilization is a positive function of the level of benefits available per period. The reasoning is the same as under (1) above.

Since for any given program, the actual utilization is a negative function of the (present value of) marginal stigma costs (the added stigma cost associated with participation in a given additional program):

3. The utilization of a program offering aid in monetary form will exceed utilization of a program offering an equal amount of aid in the form of goods and services that can be identified as being for the poor, and as a result, utilization of programs of the former type will be greater, for any given market value of available benefits. This will be true even if the money aid must be spent on the same class of commodities as the conspicuous "in-kind" program provides. The stigma cost of utilizing the in-kind program is greater. Thus rent supplements, for example, have the advantage over public housing in that the beneficiary need not live in a poor neighborhood and hence need not "announce" his poverty so widely.[3]

4. Utilization is a negative function of the proportion of the eligible persons who are poor (or, equivalently, utilization is a positive function of the proportion of the total population that is eligible for the program). If the ratio of eligibles to poor is unity--that is, if only the poor are eligible--then participation by an individual is tantamount to his announcing that he is poor; but as the proportion of eligible persons who are not poor is increased, the identification of participants with poverty diminishes. Thus the stigma cost of "means-tested" programs will be high, thereby producing less utilization among the poor than will a program offering the same benefits per person but to a group including nonpoor.[4] This result is independent of the time and other costs of filling out financial reports or otherwise proving eligibility.

5. Utilization of any new aid program is a negative function of the number of additional persons who would learn of the participant's

poverty. Persons who live in a very poor neighborhood have already announced their poverty by virtue of their residence; as a result they may feel no marginal stigma cost at all if they participate in an aid program. Similarly, schoolchildren in a poor neighborhood may feel no reluctance (marginal stigma cost) to utilize a free lunch program for the poor, whereas a group of equally poor children in a less poor neighborhood can be expected to bear a greater marginal stigma cost and hence to utilize the program less.[5]

Stigma Costs vs. Net Benefits

As benefit levels are raised, utilization will increase, given the stigma (and other) costs of program participation. It should be noted, however, that since these costs are incurred only by persons who utilize the program, any increase in utilization brings an increase in the stigma (and other) costs actually incurred. With an increase in benefits it pays to incur greater stigma costs.

This may explain why a substantial fraction of welfare recipients (51 percent in a recent survey) report not being stigmatized by participation in the program.[6] They may simply be saying that the benefits outweigh the costs, not that there are no stigma costs. In addition, of course, they may be saying that they are already stigmatized by being poor, by living in a poor neighborhood, or by participating in other programs for the poor, so that the marginal stigma cost associated with the welfare program is virtually zero.

At the same time it should be noted that there are presumably some eligible persons for whom the marginal stigma cost is so high that utilization of the aid program is not efficient for them. Since such persons are likely to have avoided the program, the stigma effect (cost) among all eligible persons may well be greater than that found in a sample selected from among program applicants or participants. To avoid the stigma cost the nonparticipants are incurring another cost: the cost of forgoing the program's benefits.

The survey finding that relatively few persons feel stigma costs are great is somewhat analogous to the findings in other, unrelated research, that few taxpayers have their work behavior influenced by "high" marginal income tax rates and that few business firms have their investment behavior influenced by "high" interest rates.[7] A similar explanation may apply to all of these findings: for many decisionmakers, the costs ("high" stigma costs, tax rates, or interest rates) may be greatly exceeded by the benefits (from the aid program or business investment), so that, not being on or near the margin of indifference, they are not actually affected by the cost considerations. For a second group of decisionmakers the benefits are so low relative to other costs that at any significant level of stigma cost, tax rate, or interest rate, the individual's decision to accept aid, to work, or to invest would not be affected. Only some (probably small) third group is close enough to the margin to have its actions affected by plausible variations in costs. With relatively few persons being near the margin, it should not be surprising that relatively few persons indicate that they are affected by these stigma or other cost considerations. And to repeat, the marginal stigma costs associated with accepting welfare or other aid may be negligible even if the total stigma costs of being poor and accepting other types of poverty aid are substantial.

Conclusion

The demand for, or utilization of, aid programs by eligible recipients depends on the cost of obtaining the aid, and on the magnitude and duration of the aid. One of the costs of accepting the aid is the stigma. Insofar as one wishes to predict the degree of utilization of any particular aid program, a potentially important variable is the marginal stigma cost, the added stigma incurred by a person who accepts the benefits from an incremental aid program for which he is eligible.

Empirical examination of marginal stigma costs is needed, as is greater attention to the relationship between these costs and the manner in which aid programs are designed and administered. Interprogram variation in the difference between the present value of marginal benefits available to an eligible person, and the present value of the marginal costs--including stigma costs--of obtaining the benefits, are likely to be at the root of the observed differences in the utilization rates for various aid programs.

NOTES

[1]The demand for one type of welfare aid has been discussed by Brem and Saving, although they were concerned not with stigma costs, but with the effect of the programs on work incentives. See C. T. Brem and T. R. Saving, "The Demand for General Assistance Payments," American Economic Review, December 1964, pp. 1002-1018.

[2]In the simple model presented here, it is assumed that the individual is indifferent as to which outsiders know of his situation. Although this is often not the case, the qualitative conclusions reached below would not be changed materially if this assumption were dropped. The assumption that people do feel stigmatized by being identified as poor does not necessarily hold equally well for all countries or for all persons or groups within the country.

[3]This stigma-cost argument is independent of the traditional economic argument in favor of monetary subsidies, based on the excess burden associated with substitution effects.

[4]For example, Medicare for all aged persons will result in a greater demand among the aged poor than will a program providing the same benefits only to those aged who are poor; the difference in demand (i.e., in utilization) is a measure of the stigma cost associated with the narrower program. The ratio of the number of poor persons eligible for aid, and the number of all eligible persons--poor and nonpoor--was termed the program's "vertical target efficiency" in an earlier paper (B. A. Weisbrod, "Collective Action and the Distribution of Income," in Joint Economic Committee, U.S. Congress, Economic Analysis of Public Expenditure Decisions: the PPB System [Washington, D.C., 1964], vol. 1, pp. 177-198. The paper is reprinted in R. Haveman and J. Margolis, Public Expenditures and Policy Analysis [Chicago: Markham Publishing Co., 1970], pp. 117-141). In that paper it was pointed out that the objective of providing benefits in a nondemeaning, nonstigmatizing way would tend to conflict with the objective of maximizing vertical target efficiency--that is, the goal of minimizing the budgetary cost by giving aid only to the needy (target group) (ibid., p. 134).

[5]The concept of a marginal stigma cost with respect to participation in an additional welfare-type program can explain the recent findings by Joel Handler and Ellen Jane Hollingsworth that there was no difference in the use of Medicaid by Wisconsin welfare recipients who did feel stigmatized by being on welfare and by those that did not feel stigmatized ("Stigma, Privacy, and Other Attitudes of Welfare Recipients," Stanford Law Review, November 1969, p. 14). Once a person is on welfare, and whatever the stigma cost associated with that, the marginal stigma cost of accepting Medicaid is presumably small, if not zero.

[6]Joel Handler and Ellen Jane Hollingsworth, "How Obnoxious is the 'Obnoxious Means Test'? The Views of AFDC Recipients," Institute for Research on Poverty, University of Wisconsin, Madison, January 1969

(mimeo). But for a somewhat contrary view, see Harold Yahr and Richard Pomeroy, with Larry Podell, "Eligibility Investigation and the Relationships of Clients to the Public Assistance System: A Study of ADC Cases in the New York City Welfare Department," City University of New York, n.d.

[7]George F. Break, "Income Taxes and Incentives to Work: An Empirical Study," American Economic Review, September 1957, pp. 529-549; Robin Barlow, Harvey Brazer, and James Morgan, Economic Behavior of the Affluent (Brookings Institution, Washington, D.C., 1966), pp. 138-146; and Charles Hitch and Robert Hall, "Price Theory and Business Behavior," Oxford Economic Papers, May 1939, pp. 12-45.