Poverty Welfare : Poverty, Welfare and Reform

Cooperative Extension, South Dakota State University

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EC 699

Part I

POVERTY

WELFARE

Poverty, Welfare and Reform

pov´er-ty (pŏv´ẽr-tĭ) 1. Quality or state of being poor or indigent; need; destitution. 2. In monastic vows, renunciation as an individual of the right to own property. 3. Inadequacy; scarcity.

Syn. Poverty, indigence, penury, want, destitution mean the state of one in great need. Poverty implies an owning nothing or almost nothing; indigence, seriously straitened circumstances; penury, a cramping or oppressive lack of money; want and destitution, extreme poverty and lack of means of subsistence.

wel´fare´ (wĕl´ fâr´) 1. State of faring, or doing, well; esp., condition of health, prosperity, etc; negatively, exemption from evil or calamity. 2. In full, welfare work. Organized community or corporate efforts for social betterment of a class or group; as, engaged in child welfare.

EC 699—A Series on Poverty and Welfare

Part A—What Are Your Feelings about Welfare?
Part B—What Is Welfare?
Part C—What Are Your Beliefs about Welfare?
Part D—Welfare: Historical Perspective.
Part E—Welfare: Opinions and Facts.
Part F—Poverty Awareness Worksheet
Part G—South Dakota Poverty Data.
Part H—Welfare: the Poor, the Near Poor, the Receipts and the Cost.
Part I—Poverty, Welfare and Reform.
Part J—Designing a Welfare System.

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Poverty, Welfare and Reform

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America's welfare system is under attack from many directions. There is an enormous amount of discussion about new, general and comprehensive programs for income maintenance and financial security for persons living in poverty. With considerable unrest and dissatisfaction with the present system several groups emerge. The reformers and advocates for the poor design programs that they believe will help the less fortunate people. Economists study the implications of the various programs proposed and the government establishes special commissions to study the feasibility of proposed programs.

Legislators are the people that have to make most of the decisions on welfare reform. The group of constituents that they rely upon most heavily for their information and support will likely influence their thinking and actions. Depending on the attitudes of his or her constituency, a legislator may decide to vote for cutting welfare spending and transferring that money to a more popular program. Another legislator representing another type of constituency may find that voting for welfare increases and welfare reform favoring receipients is the best approach.

As citizens you should take an active and informed part in the discussions shaping the public welfare system. To do that, you need to have a basic background in the public welfare system and then do independent study in areas that are of most concern to you. Then by sharing your ideas with others and by listening to what others have to say, a welfare system that is most equitable to the people living in the United States may evolve.

Before you begin your study and discussions, you need a basic understanding of the facts, the terminology and problems associated with welfare reform.

Facts— People in Poverty

Across the nation, there are over 25 million people living in poverty. They represent about 13% of our population. In South Dakota there are about 120,000 persons living in poverty conditions which represents about 18% of our state population. Another 48,000 persons in South Dakota are living just above the poverty line as defined by the Social Security Administration.

The welfare dilemma has been with us for a long time. The State and Federal legislators try almost each term to reform the programs to better aid the recipients and at the same time to practice fiscal responsibility with the taxpayers dollar. The reform measures are written to encompass the masses and this sometimes causes problems. If we were to consider each of the 25 million persons living in poverty, each case would be unique in and of itself. Often we think we have solutions that will alleviate the current problems. While these solutions are often good when considered alone, they do not always apply to all persons and the solutions may in fact cause suffering for some receipients.

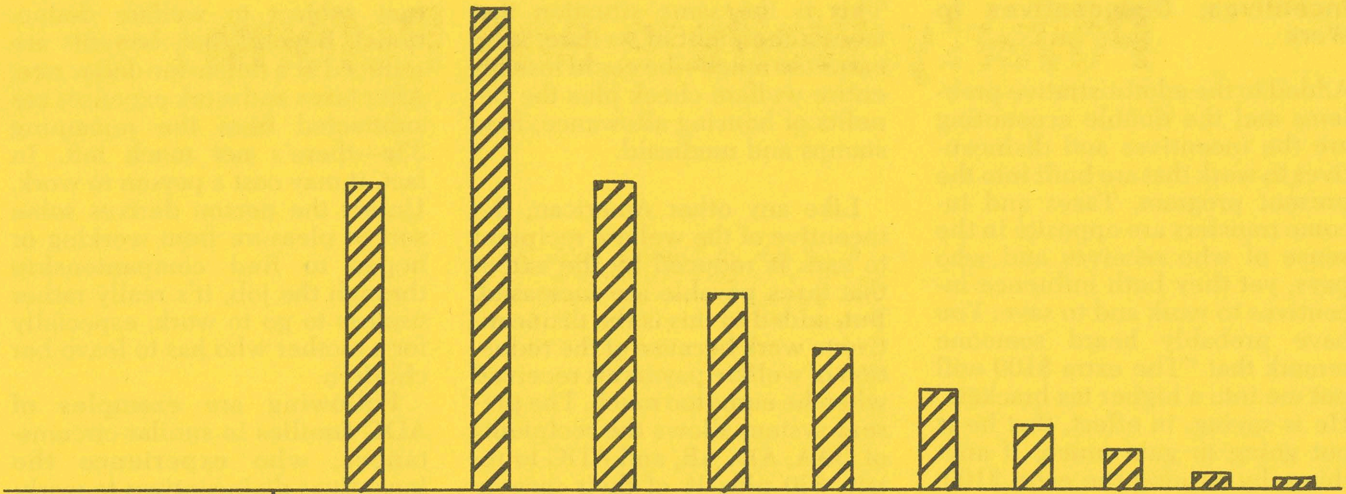
Some of the Problems

You have probably heard people refer to the "percent of need," "income notch," "eligibility," "incentive to work," "disincentive to work," "underpaid," "income maintenance," "poverty level," "negative income tax," "transfer," "cut-off points," "aid," "aid-in-kind," "demogrant," "government red tape" and many more.

Let's examine some of these "words" and the problems to which they refer.

Administrative Problems — "Government Red Tape"

One of the administrative problems with the present system is that there are many programs helping the same individuals. According to a study done by the Joint Economic Committee of the Congress, 60% of the recipients studied were found to be receiving assistance through more than one program. Of these, 40% were receiving assistance from more than two programs. This means that several agencies are checking on income and family circumstances, keeping records, mailing checks, paying vendors, and enforcing program rules while serving largely the same clientele. The following graphs are illustrative of the number of persons receiving aid from more than one program and the complexity involved in a 9-member household receiving assistance through ten programs over the course of one year.



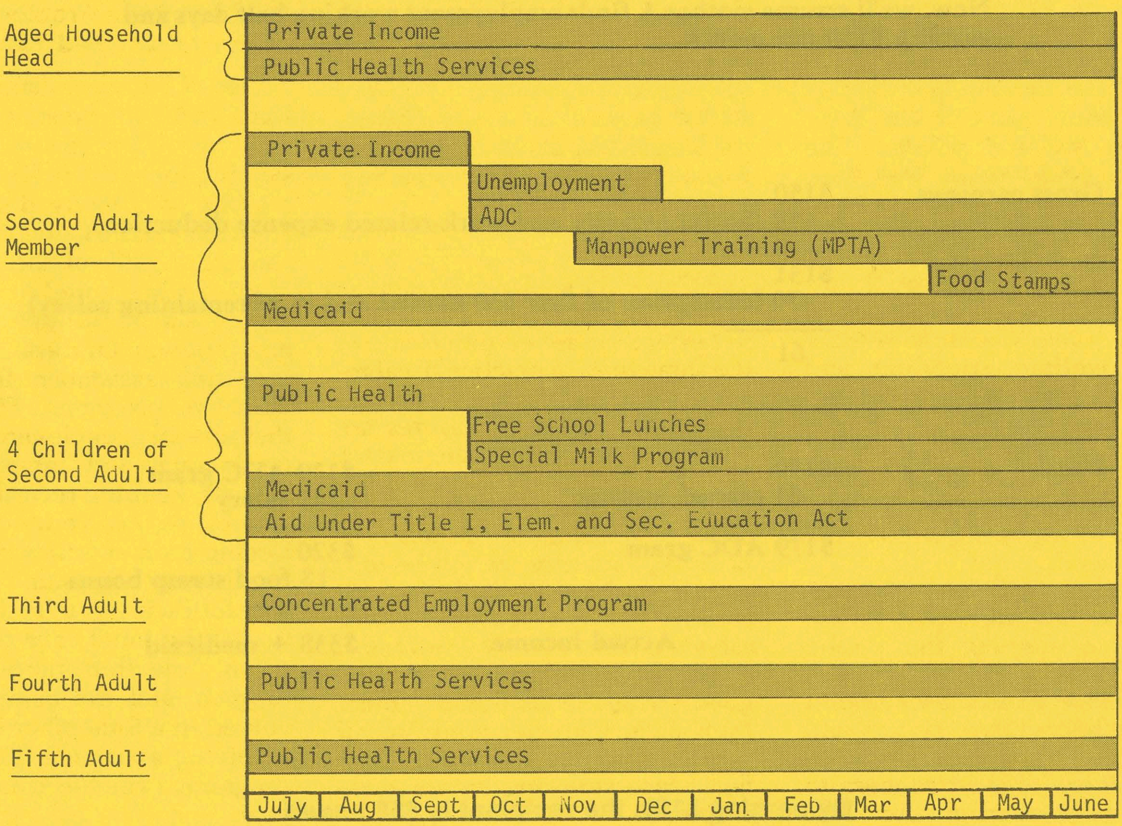
Number of benefits	0	1 or more	2 or more	3 or more	4 or more	5 or more	6 or more	7 or more	8 or more	9 to 11
Percent of households	40%	60%	40%	26%	17%	11%	7%	3%	1%	0.8%

Figure 1. Sample Households by Number of Benefits Received

Source: Studies in Public Welfare, *How Public Welfare Benefits Are Distributed in Low-Income Areas*, Paper No. 6, Joint Economic Committee. Congress of the United States, March 26, 1973, p. 7.

Figure 2. An example of Administrative complexity, income and benefits received by one nine member family in one year.

Source: Studies in Public Welfare, *How Public Welfare Benefits are Distributed in Low-Income Areas*, Paper No. 6, Joint Economic Committee, Congress of the United States, March 26, 1973, p. 25.



Incentives, Disincentives to Work

Added to the administrative problems and the double accounting are the incentives and disincentives to work that are built into the present program. Taxes and income transfers are opposite in the sense of who receives and who pays, yet they both influence incentives to work and to save. You have probably heard someone remark that "The extra $100 will put me into a higher tax bracket." He is saying, in effect, that he is not going to gain much, if anything, by earning the extra $100. This is the same situation that faces a recipient of welfare, if he earns too much—he could lose his entire welfare check plus the benefits of housing allowance, food stamps and medicaid.

Like any other American, the incentive of the welfare recipient to earn is reduced by the extent that taxes payable are increased. But, added to this is the disincentive to work because of the reduction in welfare payments received when he earns too much. The present system allows the recipients of OAA, AD, AB, and ADC to retain $30 plus ⅓ of their income (not subject to welfare deductions). Beyond that, benefits are reduced at a dollar-for-dollar rate. After taxes and work expenses are subtracted from the remaining 33¢—there's not much left. In fact, it may cost a person to work. Unless the person derives some sort of pleasure from working or hopes to find companionship through the job, it's really rather useless to go to work, especially for a mother who has to leave her children.

Following are examples of ADC families in similar circumstances, who experience the incentives-disincentives to work:

Family A — Mother and two children. Assume that the children are school age and the mother would not need to hire a baby sitter if she were to go to work. Further assume that her rent is $70 per month and her utilities are $30 per month. She has absolutely no income. The State Department of Public Welfare would see a need of $240 for this family including rent and utilities.

$240	$240 ADC grant
−100 rent and utilities	+40 food stamp
$140 cash	$280 (Actual income)
+40 food stamp bonus (pay $52 and receive $92 value)	+ medicaid
+ medicaid	

Now, we'll assume mother A finds employment working half days and earning $150 per month.

Gross earnings	$150	
	-19 (Social security and work-related expense deduction)	
	$131	
	-70 (exemption of first $30 earned and ⅓ of remaining salary)	
	61	
Need	$240	$179 ADC grant
	-61 earned income	141 salary
	$179 ADC grant	$320
		18 food stamp bonus
	Actual income	$338 + medicaid

By earning $150, the recipient is $58 ahead

Now, we'll assume mother A decided to work full time and therefore has earnings of $300 per month.

Gross earnings	$300	
	−37 (Social Security, Federal Income tax + work related expense)	
	$263	
	−120 (exemption of first $30 + 1/3 remaining)	
	$143	
Need	$240	$ 97 ADC grant
	−143 earned income	273 Salary
	$ 97 ADC grant	$370
		18 Bonus value food stamps
	Actual income	$388 + medicaid

By earning $300, the recipient is $108 ahead

There are several things that one has to consider as one observes Family A. In both instances whether the mother is working part-time or full-time, keep in mind the cost of working. True $10 was allotted for work expense before the deduction and then the $10 was added back into her disposable income. Whether you choose to look at the $58 or the $108 a month, consider the additional costs that have to come from that additional income. First, there is the cost of getting to the job—car gas and parking or taking the bus or calling a taxi—in any case, she will have approximately 40 trips a month to make. Then there is the cost of clothing. Before the mother was employed, she could wear almost anything she wanted around the house and with the lack of money has probably not spent a great deal on clothing in the past. What if the job calls for uniforms, or what if she is required to wear nylons to the job? Nylons alone, as any working woman can tell you, can amount to several dollars a month. Then there's lunch—does she pack it from home or does she eat in the cafeteria or in a restaurant close by? Is there an incentive to work?

Now let's look at another example of disincentive to work. Only this one is a disincentive to work at the time you apply at the welfare office. Remember that Family A was not earning any money at the time they initially visited the welfare office and the developments that *take* place. Now let's look at Family B that has been trying to make a go of things with the same family circumstances, the same number of children, the same age, the same rent, etc., except that the mother was working and earning $300 a month and finds that she has to have additional money.

Family B — Mother and two children. We'll assume all the conditions are the same with one efception—the mother is working and earning $300 a month when she goes to the welfare office.

Need $240	
	$300 — she does not qualify for ADC payment
	— she does not qualify for medicaid
	— she can receive food stamps in the amount of about $40
	$300
	-27 Social Security and Income tax
	$273
	+40 Food stamp bonus
Actual income	$313 Not eligible for medicaid

Comparing Family A and Family B you can see a positive difference of $75 to Family A plus medicaid to which we have not assigned a dollar value. It is all based on when the mother started work. Family A represents the government's incentive to get the mother working. By earning $300 per month, she has an actual increase in income of $108. For Family B, the mother is in a sense penalized because she has been working all along and finds that she has a *value* of $75 plus medicaid less than a mother who just started working. Perhaps this is justified if the mother is just starting to work and needs this additional $75 to get started, but is it justified for several months? This will continue for months and months if the conditions remain exactly as they exist now. ADC is not like unemployment where the person is taken off of the rolls after a certain number of weeks.

The spread could become even more pronounced. Family A could remain eligible for medicaid and some support payment from the Department of Public Welfare up to a point where the mother earns $460.00. Then figuring the deduction for social security and federal income tax the mother could be taking home about $407 per month. That means a difference of $94 between Family A and Family B depending whether the mother began employment before or after she visited the welfare office.

Another instance is the person receiving Social Security and working only a few hours. If this person makes a dollar above the level set by the Social Security Administration, he actually gets to keep about 30 cents. Here's why. First, he will have to pay income taxes on the dollar and that will amount to about 20¢. Then the rules say that the government can deduct one-half of every dollar earned (50¢). The result is that the person is only 30¢ on the dollar better off ($1.00 - 50 - 20 = 30¢).

If we were to hold the initial benefits level constant with a relatively small decline in benefits for each added dollar of income, the income level at which a family would lose its last dollar of benefit (the income cutoff) would rise and this would enormously raise the cost of coverage to middle income families. On the other hand, a relatively large decline in benefits for each added dollar of income carries the undesirable consequence of creating a disincentive to work and/or a large incentive to hide whatever income is received. This type of an arrangement would force a difficult choice as to what the rate would be—that is, at what rate will the benefits decrease relative to income.

Income Notch

An alternative to decreasing the benefit as income increases would be to disregard any type of a reduction and pay the full amount up to a certain level of income. That is, anyone falling beneath this level would receive full benefits and anyone above the level would receive none. Then you have what is commonly called the "notch." Once you reach this certain level you are not eligible for benefits. The problem is that Family X may earn $400 per month and not receive any benefits because we'll say the level is at $399, but Family Z could be earning $398.50 and receive full benefits of food stamps, medicaid, public housing, etc. therefore actually making its income increase by several hundred dollars. This definitely provides a disincentive to work after a certain point. Simply filling the gap to a certain point is equivalent to a negative rates plan with a 100% negative tax rate.

The people working can to a large degree govern the amount of money that they earn and if the income notch provisions were accepted, they could gain a great deal by only working to a certain level. What about the person who is not working but earning or receiving his money in a way which is not controllable by him. In the following example are two identical aged couples with one exception—one of them receives $10 a month more than the "notch" allows in order to qualify for the benefits.

A dollar amount of $249 is the "notch" above which payment cannot be made.

Alternative to Income Notch

It has been suggested that perhaps the best way to handle this situation is to disregard in-

Aged Couple C in Rural Counties		
Social security	$184	
Old age assistance	65	
Surplus commodities	33	
TOTAL, average monthly income and benefits	$282	+ medicare + medicaid
Aged Couple D in Rural Counties		
Social security	$259	
TOTAL, average monthly income and benefits	$259	+ medicare only, no medicaid

Source: Studies in Public Welfare, *How Public Welfare Benefits are Distributed in Low-Income Areas*, Paper No. 6, Joint Economic Committee. Congress of the United States, March 26, 1973, p. 15.

come and look to other ways to group the recipients to determine the benefits—such as on a regional basis as is done with the Appalachia program, or by ethnic group such as the aid to the Indians, or through certain sections of the city such as the neighborhood—model cities program or aid to the elderly as is done with additional tax credits for aged and blind. The problem is that you do not reach all the persons needing to receive assistance. While it would reduce cost, it could at the same time cause people to shift residence to share in the benefits—that is, shift from one area to an area that is already suffering from economic depressions.

"Recipients Should Save Money"

Because of the way rules are set up, a recipient is discouraged from saving. Many Americans are taught from early childhood to save—to save for education, to save for a house, to save for the general purpose of saving. Recipients face just the reverse—if they do save, they are apt to lose their benefits, because the asset of cash reserves disqualifies them for benefits.

High income cutoff points are not necessarily bad, they tend to encourage work, but if we choose to do this we would have to increase the budget to cover all of those eligible.

Before the 1972 Social Security Amendments, a receiver of Social Security could earn up to $1680 during the year without having his benefits reduced. If the receiver earned between $1680 and $2880 he would lose at a 50% rate—that is, $1.00 - 50¢ deduction in benefit, - 20¢ taxes = 30¢ net for dollar. For every dollar above $2880, he would lose 100% of the dollar plus taxes.

The 1972 Social Security Amendments attempted to alleviate this problem. There was pressure brought on by the receivers because of the increased cost of living. The 1972 Amendment made the law read that a person could earn up to $2100 per year and after that benefits would decline at a rate to 50%. This seemed like a help—but at the same time the increase in amount of payments took place, it moved some people only a few dollars above the poverty level cutoff and because of this they were ineligible for food stamps and medicaid.

This is an example of a program written to encompass the masses that has a total effect of aiding some recipients, while at the same time causing suffering for others. There are other programs that have a similar affect in application.

Take for instance, the Supplementary Security Income payments (SSI) that will come into effect January 1974. It was estimated that the SSI payments would help about 70% of the people living in South Dakota, but another 30% were going to be in a worse position than they were before. Here again, it was because the program was planned for the masses. Recent amendments to the Social Security Acts of 1972 have alleviated many of the problems that would have beset recipients.

Percent of "Need"

Undoubtedly you have heard someone talk about the percent of "need" that is being paid welfare recipients. The definition of "need" often depends on the person stating the definition. Even two persons in the same circumstances often define their own "need" in different terms. Also, what one person defines as "need" in relation to his existence may be quite different from what he defines as "need" for the person down the street who depends on welfare.

The Federal government has left the establishment of the standard against which the "need" of an applicant for public assistance is measured up to each state. This is the basis for the wide disparities in amount of assistance which a family in similar circumstances would receive according to where they live. For example, in June 1972 the average monthly ADC payment per person varied from $14.75 in Mississippi to $78.51 in Hawaii. Among the Great Plains states the June 1972 payment ranged from $41.53 in Montana to $74.22 in Minnesota, with South Dakota's payments averaging $50.80 per person.

Part of the difference for the actual amount of payment received is that many states pay a "percent" of the amount established as "needed." Payments in South Dakota to ADC families have been made at 80 percent of standard of need. This year the South Dakota legislature provided enough money in the ADC appropriation to permit payments to recipients at 100% of the Department's standard of need as it was adopted in 1969, plus increasing the allowance for utilities from $20 per month to $30 per month. Prior to this time, ADC payments were being made at 95% of standard of need; that is the caseworker and the applicant for ADC prepared a budget based on the standard allowances, took 95% of this amount, then subtracted the family's earnings or other income according to the rules and the amount remaining was the amount of assistance to which the applicant was entitled.

For example, if the standard allowances for a family of four paying $100 a month in rent came to $300: 95%, the amount a family with no other income would receive was $285; currently this same family without any other income receives $310, that is 100% of standard plus $10 increase in allowances for utilities. The amount of the grant is reduced by any unearned income which the family receives and by earned income according to a formula which provides an incentive to work.

Aid and Aid-in-Kind

Literature on welfare often differentiates between "aid" and "aid-in-kind." Aid is the assistance provided the recipients in the form of cash. Aid-in-kind includes such items as surplus food, medical services, legal aid, child care, vocational rehabilitation and such other items that are provided the recipient for which he does not have to pay cash.

An Eligibility Problem

The programs often seem unfair to many persons. For instance, if a couple with children remain living together, regardless of whether the father is underemployed or unemployed, there are no benefits given this family, with the exception of food stamps provided they have the cash to purchase the stamps. But if the father were to leave the household, the mother and her children could obtain ADC, food stamps, and health benefits. This is the case in 25 states in the United States including South Dakota.

Or take the case of a retired couple that is receiving Social Security in amounts $10 over the amount allowed in order to participate in any of the government assistance programs. This situation was illustrated under the Income Notch subheading as discussed previously.

County Poor Relief

The legal basis for County Poor Relief is found in SDCL 28-13, etc. In two counties in South Dakota, the Commissioners have appointed full-time staffs to handle county poor relief for them. Those counties are Minnehaha and Pennington. In all other counties of the state, the Commissioners handle their own relief programs. Most of the aid is given in a form not even mentioned in the law, that is, through vendors and vouchers. The individual goes to the County Commissioners and requests funds, then in turn, the Commissioners advise the individual to go and purchase the food, drugs, etc. and the payment is made directly to the store where the items were purchased. Decisions in regard to eligibility for aid and the amount of aid to be given are made at the discretion of the commissioners.

The County Poor Relief law permits a county to hire a "County Doctor" who is paid a salary to provide treatment to the poor. Most counties have abandoned this practice and permit more or less free choice of physician by the patient. Then payment for authorized treatment is made on a fee basis. In most instances, medical services to be paid from county funds must be authorized in advance. This could create hardships in acute or emergency situations.

An OAA recipient (who will automatically become a SSI recipient, Jan. 1, 1974) receives a money payment from the state to cover his subsistence needs. If he is a recipient of Social Security, Medicare pays for his medical care within limits, the share usually paid by the patient is picked up through Medicaid if the person is unable to pay. He must still go to the county for help with prescription drugs. Nursing home care is now considered medical care and this is paid through Medicaid. The county can supplement the check from Medicaid or the County can make full payment until the state takes over the payments—for instance in the case of a person who enters the care facility during the middle of one month and finds that his payments from Medicaid do not start until the next month.

Several bills were before the 1973 session of the South Dakota legislature concerning County Poor Relief. One bill, SB 41, sought to prohibit the publication of names of persons receiving aid. This is indirectly in the law at this time, that is, that the county is required to print in its proceedings every expenditure made to whom and for ahat. For many years now, some of the counties simply have been stating that X dollars were paid to (name of store) for medicine for the poor. In other counties, the names of the persons and amounts of money are listed. Cases have been reported where an individual needing drugs either went without or used food money to purchase the drugs to avoid having his name published in the paper. The older citizens are particularly sensitive to having their names in the paper. This bill did not pass at this session, but will undoubtedly be introduced again.

The last County Poor Farm which was located in Minnehaha County was closed in 1970. The OAA program is largely responsible for the closing of county poor farms. Part of the purpose of OAA was to give old people the cash they needed to remain in their own home; however, it soon became evident that many needed more than cash and we developed homes for the aged, first through private ownership and then later by non-profit organizations. Many of the counties leased their poor farms to individuals or groups for use as homes for the aged.

During the 1973 session of the legislature, a bill HB 614, provided that the property formerly used as a poor farm could be sold and the funds received are to be used for other poor relief. In fact the bill repealed the entire section that had provided for county poor farms.

County poor relief comes from a special tax levy in the county specifically for the poor fund. For all county poor relief given, a lien is placed on any property which the person may own or later acquire.

Equity of Benefit Distribution

One of the principles of relief-giving which dates back to the Elizabethan poor laws is that a recipient of aid should not receive more than the lowest paid wage earner. Assistance payments, which respond to special needs and which are based on the number of persons in the family, may exceed prevailing wages for unskilled labor. In addition, the receipt of assistance may make a family eligible for other benefits, such as Medicaid, not available to the low paid wage earner. This puts the family with a working father in the home at a disadvantage. Presently 23 states have ADC-unemployed father programs. South Dakota does not have an ADC-unemployed father program. South Dakota also does not extend Medicaid to persons and families not eligible for assistance. Lack of aid available to the family with a father in the home puts pressure on him to leave so his family can obtain assistance.

Payments under the adult programs are generally at a higher level than those for ADC. In South Dakota, money payments for May 1973, for instance, were: $96.27 per blind recipient, $80.37

per disabled recipient, $64.86 per aged recipient, and $56.65 per person in families receiving ADC.

Emphasis is placed on work incentives to enable a recipient family with a wage earner to receive a higher total income than a recipient family without income or with unearned income such as veteran's benefits. As demonstrated under "Incentives and Disincentives," a portion of earned income is disregarded in determing the amount of assistance to be paid and allowances are made for work related expenses, such as child care.

Other aids such as food stamps, Medicaid, rent subsidies, job training and child care add to the total package of benefits which assistance recipients receive. Some of these "extras" such as food stamps and rent subsidies are available to persons and families with low income as well as to the assistance recipients.

According to a study done by the Joint Economic Committee it was found that "Millions of the Nation's male-headed families. . . received welfare benefits. . . male headed families, *non-aged* childless couples and single individuals are not the complete losers in terms of public benefits they are widely believed to be. These groups more often receive benefits in the form of goods and services rather than in the form of cash, and the total packages of benefits may not equal the value of benefits available to public assistance recipients with similar private incomes." The only overall conclusion that can be made is that persons who appear to be in similar circumstances may not receive the same package of public benefits.

Income Taxation

You have perhaps heard someone suggest that we eliminate the present welfare system and create something entirely new. Two types of programs that have been suggested are the demogrant and the negative income tax. While the two are different in the issues and problems they raise, they do not differ in principle.

Demogrant

A demogrant could be defined as a transfer payment in which every family begins the year with an income guarantee from the government. This would be an independent income, the same for all people, and enough to bring all persons, presumably, up to a minimum subsistence level. Then those above the poverty level would have to pay taxes on their demogrant, while those below would be exempt. Because the grant would be given to all families, not just the poor ones, the cost of the program would be large. The tax rate would have to be raised substantially to meet the demogrant expenditure. It could be that tax exemptions for dependents would have to be eliminated. The demogrant plan could also tend to build in disincentices to work.

Negative Income Tax

A negative income tax would meet some of the cash needs of the poor. An income level would be determined for each family size (probably at or approaching the poverty level) at which level a family would not pay taxes or receive benefits. Those above the level would pay taxes as they do now and those below would receive money benefits. The exact amount of the benefit would have to be determined, but it would likely be a percentage of the amount by which the family income fell below the income level established. The negative income tax would be much less expensive than the demogrant as it would be aimed at only the poor and the redistribution of income would not be as widespread.

While there are proponents of both the demogrant and the negative income taxation plan, there are those who believe that it is more advisable to reform the present welfare program than to enact a new system.

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