WHITHER WELFARE REFORM?

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There are two welfare states in the U.S. The Poor Welfare State consists of means-tested programs: Aid to Families with Dependent Children ("Welfare"), Food Stamps, Medicaid, rental assistance, school lunch and other nutrition programs, a small part of student financial aid which goes to poor students, and some employment programs like Job Corps and JOBS programs for welfare recipients. The Grand Welfare State consists of a group of non means-tested contributory social insurance programs: Social Security, Disabilty Insurance, Medicare, unemployment insurance and various tax breaks. Despite common belief, these entitlement benefits are not entirely earned. Current Social Security recipients, for instance, will receive on the average twice what they paid into the program in inflation-adjusted dollars. They are receiving a direct transfer of funds from the government, often far greater that AFDC recipents, but do not think of themselves as "on welfare." They tend to believe, incorrectly, that they have earned the full benefit.

There are two main differences between the two welfare states: the scope of benefits, and the stigma each carries. "To take an example, the Social Security Act has two major provisions for dependent children, AFDC and Survivor's Insurance (SI)," Michael Sherraden writes. "In neither case have the children earned these benefits (SI benefits are tied to parental earnings, and AFDC benefits are means-tested)....SI benefits are tied to inflaton, and real benefits are now almost three times more than the amount provided to AFDC children."

Sherraden, in his book, "Assets and the Poor: A New American Welfare Policy" (M.E. Sharp, 1991), defines welfare policy as, "Direct expenditures and tax expenditures of direct benefit to individuals in seven major catagories: education, employment, social services, health care, income security, housing and nutrition." * He only includes federal expenditures. Tax expenditures are largely in the form of deductions and exclusions of income from taxation. (When I don't have to pay tax on mortgage interest, the effect is the same as a grant from the government to assist me with housing.) "Federal tax expenditures for home mortgage tax deductions alone are more than twice the federal expenditure for AFDC."

AFDC, for which the federal government spent $11.2 billion in 1987 (current expenditures are around $22 billion, but these percentages are roughly equivalent), represents 9% of the Poor Welfare State and 1.4% of the Grand Welfare State. The claims of the non-poor comprised (in 1987) a total of $651 billion, or 84% of all welfare expenditures.

On the average, the value of AFDC plus Food Stamps is less than 75% of the poverty level. Nationwide, only one in eight AFDC families receives any kind of rent subsidy.

By the way, contrary to popular myth, the average number of children in AFDC families is 2.0, about the same as for the rest of the population. In fact, "The General Accounting Office released a report (March 22, 1987) concluding that 'research does not support the view that welfare encourages two-parent family breakup,' that the availability of welfare 'has little impact on the child-bearing rates of unmarried women,' and that the availability of welfare does not significantly reduce the incentive to work. The GAO reached its conclusions after reviewing more than 100 studies completed since 1975, studying case files of more than 1,200 welfare families in four states, and interviewing federal, state and local officials." **

Sherraden tells the story of a 1980 commencement address to 61 Harlem 6th graders by multimillionaire industrialist Eugene Lang. The high school dropout rate in the neighborhood was 50% to 75%; almost no one went to college. Lang told the kids that if they stayed in school, he would pay their college tuition. Almost all of the students graduated from high school. In 1988, almost half the original group were in college. A number of others had enrolled in college and quit -- possibly because of the inferiority of their high school education. Although this experiment was not a perfect success, the dramatic improvement in educational achievement was remarkable.

"Several students explicitly said that they thought that Lang's concept had worked because many children in the neighborhood had, in the past, put ideas of college out of their minds at an early age, thinking it was a luxury beyond their reach. But with a guarantee of college, the students and their families began to behave differently." Apparently, even the poorest kids respond positively when they see options for the future.

Welfare policy in the U.S. is almost entirely income-based. Recipients are expected to use up all of their savings and most other assets before they are eligible. The welfare system then provides them with income for consumption. In the unlikely event that savings occur, the grant is reduced. There are disincentives to work as well as to save.

The theme of Sherraden's book is that, "Asset accumulation and investment, rather than income and consumption are the keys to leaving poverty....Welfare policy should promote asset accumulation -- stakeholding -- by the poor. An asset-based welfare policy would seek to combine welfare assistance with economic development."

Assets are the wealth of a family, what they have beyond the income required for consumption. Savings accounts, retirement plans, college tuition savings, life insurance policies, home equity, etc., are assets. The accumulation of assets has several positive psychological and behavorial effects. When people are accumulating assets, they think and act differently.

Assets: "(1) improve household stability, (2) create a cognitive and emotional orientation toward the future, (3) stimulate the development of human capital and other assets, (4) enable people to focus or specialize, (5) provide a foundation for risk-taking, (6) enhance personal efficiency, (7) increase social influence, (8) increase political participation, and (9) increase the welfare of offspring."

In general, assets connect people to the economy and society. (When I bought my first home, I began to care a lot about things which seemed alien to me as a renter. I not only cared more about my property, I also cared more about my community, its environment, and what the city council was doing.)

How would an asset-based program work? Sherraden suggests a system of IDAs, Individual Development Accounts, for all citizens, similar to IRAs (Individual Retirement Accounts). For the poor, the government would subsidize deposits, up to 95%. The accounts would be in individual's names, not families' -- so every poor child would be accumulating resources for post-secondary education or training. The accounts could be used to purchase a home or to start a business, for job training or retraining -- things which develop human capital and give people a stake in society.

The idea of making the program universally available is to avoid the disastrous split between those "on welfare" and those "not on welfare." The government could subsidize moderate-income contributions to IDAs by making them tax deductable up to a certain income level, like IRAs.

How much money would these accounts be allowed? Sherraden suggests as a starting point 20% of the cost of the median-priced home in a given area.

What about funding for this kind of a new program? This program could be completely funded by "reallocating excessive welfare expenditures that currently go to the non-poor, especially those that support luxury housing and excessive retirement benefits to people who don't need the money." There is some evidence which suggests that an asset-based welfare reform policy, because it is based on savings and investment, would be more acceptable to the private sector.

Asset-based welfare policy should be guided by these basic principles. It should: "(1) compliment (not supplant) income-based policy; (2) have universal availability; (3) be based on voluntary participation; (4) provide greater incentives for the poor; (5) not define individuals as "on welfare" or "off welfare"; (6) promote shared responsibility; (7) have specific purposes; (8) encourage gradual accumulation; (9) provide investment options; (10) promote economic information and training; and (11) foster personal development."

One of the major issues the Clinton administration is turning its attention to is welfare reform. Will they opt for: the punitive approach of blaming the recipients and forcing them into minimum wage, no-benefit jobs; the maintenance approach of keeping things pretty much the same as benefits are gradually eroded; or will they choose an approach which ams to help people out of poverty, perhaps even (are you listening Lyndon?) to eliminate poverty?

"The vision that underlies this proposal is that insofar as possible, each individual should be encouraged to develop to his or her greatest potential, not only as a matter of humanistic values, but as a matter of long-term economic competitiveness of the nation, social cohesion, and the vitality of our democratic political institutions."

*Quotes are from Sherraden unless otherwise stated. References available.

** Quoted in Piven and Cloward's "The Mean Season: the Attack on the Welfare State"

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