

## Government in America CHAPTER 18 OVERVIEW AND OUTLINE

### CHAPTER OVERVIEW

#### INTRODUCTION

The vast differences in the wealth and income of citizens in the United States raise a host of questions related to why such differences exist and what the appropriate policy response should be. **Social welfare policies** attempt to provide assistance and support to specific groups in society.

#### THE SOCIAL WELFARE DEBATE

Many Americans equate social welfare exclusively with government moneys given to the poor. Yet the government gives far more money to the non-poor than to people below the "poverty line." Some benefits (such as Medicare) may be provided regardless of financial need and are termed **entitlements**. Other benefits (such as food stamps and unemployment payments), are **means-tested**, provided selectively to those in particular need who meet specific eligibility criteria. This chapter emphasizes that these policies are determined as part of a political process, where some interests are represented more than others.

#### INCOME, POVERTY, AND PUBLIC POLICY

The concept of **income distribution** describes the share of national income earned by various groups in the United States. The distribution of income across segments of the American population is quite uneven. **Income** is the amount of money collected between any two points in time (such as a week or a year); **wealth** is the amount already owned (such as stocks, bonds, bank accounts, cars, and houses). Studies of wealth display even more inequality than those of income. The census lists Americans' median family income in 2001 as \$42,200, but there is also a great deal of poverty. For 2000, the Census Bureau defined a family of three as falling below the poverty level if it had an annual income below \$14,129; that year 11.3 percent of all Americans were living in poverty.

Poverty in America is concentrated among a few groups. Large percentages of some groups are poor, including African-Americans, Hispanics, unmarried women, and inner-city residents. Because of the high incidence of poverty among unmarried mothers and their children, experts on poverty often describe the problem today as the feminization of poverty.

The government spends one out of every three dollars in the American economy, and thus has a major impact on its citizens' wealth and income. In particular, there are two principal ways in which government can affect a person's income: government can *manipulate incomes through its taxing powers*, and government can *affect income through its expenditure policies*.

The best evidence indicates that the overall incidence of taxes in America is **proportional**, not **regressive** or **progressive**. This occurs because *regressive state and local taxes* are counterbalanced by more *progressive federal taxes*. The EITC is a special tax benefit for working people who earn low incomes.

Government *spending* policies can also affect a person's income. Benefits from government are called **transfer payments** because they transfer money from the general treasury to those in specific need. Government can also give an "**in-kind payment**," something with cash value that is not cash itself (such as food stamps or a low-interest loan for college education or healthcare subsidies for poor families with children).

## **THE EVOLUTION OF AMERICA'S SOCIAL WELFARE PROGRAMS**

For centuries societies considered family welfare to be a private concern. With the growth of large, depersonalized cities and the requirements of the urban workforce, government was impelled to take a more active role in social welfare support. A major change in how Americans viewed government's role in providing social welfare came during the Great Depression. After the onset of the Depression in 1929, many Americans began to think that governments must do more to protect their citizens against economic downturns. The federal government responded to this change by passing the **Social Security Act of 1935**, one of the most significant pieces of social welfare legislation of all time. Other programs such as Medicare were added later.

The 1960s brought an outpouring of federal programs to help the poor and the elderly, to create economic opportunities for those at the lower rungs of the economic ladder, and to reduce discrimination against minorities. Many of these programs were established during the presidency of Lyndon B. Johnson (1963- 1969), whose administration coined the term the "Great Society" for these policy initiatives.

By the 1980s, many had come to believe that welfare programs of the Great Society had been a failure. President Ronald Reagan chose to target poverty programs as one major way to *cut government spending*. This action served his own ideological beliefs of *less government* and *more self-sufficiency*.

In August 1996, President Clinton signed a welfare reform bill that was supported by congressional Republicans but was opposed by half of congressional Democrats. The major provisions of the bill included giving each state a fixed amount of money to run its own welfare program; requiring people on welfare to find jobs within two years or lose their benefits; and setting a lifetime maximum of five years on welfare. After welfare reform, they were known as **Temporary Assistance to Needy Families (TANF)**, today's name for the means-tested aid for the poorest of the poor. TANF benefits like AFDC are small and declining. From the Welfare Reform Act's signing in 1996 until September 2002, the number of welfare recipients declined from 12.2 million to 5.3 million, a drop of 58 percent. Welfare reform coincided with major economic growth in the 1990s. As

the twenty-first century dawned, economic recession and then terrorism strained national and state budgets. No state put the poor at the top of its spending agenda.

## **LIVING ON BORROWED TIME: SOCIAL SECURITY**

As it stands now, the Social Security program is living on borrowed time. By the turn of the twenty-first century, Social Security and Medicare had become the most expensive public policies in the history of the world. In a decade, they will consume more than half the federal budget.

## **SOCIAL WELFARE POLICY ELSEWHERE**

Other national governments and their citizens often take quite a different approach to the problems of poverty and social welfare. Most Americans would be amazed at the range of social benefits in the average European country. Europeans pay a high price for generous benefits. Taxes in Western European nations far exceed those in the United States. Every problem the United States faces in funding Social Security is even bigger in Europe.

## **UNDERSTANDING SOCIAL WELFARE POLICY**

In the social welfare policy arena, the competing groups are often quite unequal in terms of political resources. For example, the elderly are relatively well organized and often have the resources needed to wield significant influence in support of programs they desire. As a result, they are usually successful in protecting and expanding their programs. For the poor, however, influencing political decisions is more difficult. They vote less frequently and lack strong, focused organizations and money.

Although government benefits are difficult to enact, the nature of democratic politics makes it difficult to withdraw them once they are established. Tremendous pressures come from these supporters to keep or expand programs and to preserve them from elimination. These pressures persist even when the size and costs of programs seem to have grown beyond anything anyone might have originally envisioned.

## **CHAPTER OUTLINE**

### **I. INTRODUCTION**

A. One long-debated question about democracy in America is how much we owe to one another, to the poor, or to other generations.

1. Social Security is the single most popular policy in America (95 percent of Americans favor it).

2. But on the other hand, programs to help the poor have always been controversial.

3. In these days of terrorism, wars, and rumors of wars, federal spending on social programs (about \$1.3 trillion) dwarfs federal spending on the military (about \$350 billion) and homeland security (about \$40 billion).

B. **Social welfare policies** provide benefits to individuals, either through entitlements or means-testing.

## II. SOCIAL WELFARE DEBATE

### A. Social Welfare Policies.

1. Although social welfare programs have not ended poverty or reduced income inequality in America, these programs have produced substantial improvements in the day-to-day living conditions of many Americans.
2. **Entitlement programs** like Social Security and Medicare are the largest and most expensive social welfare programs in America. (see Table 18.2, which summarizes the major social welfare programs.)
  - a. The elderly are receiving more and better treatment as a result of Medicare, and Social Security payments keep many senior citizens out of poverty.
3. **Means-tested programs** aimed specifically at the poor—such as Medicaid and food stamps—are funded at much lower levels than non-means tested entitlement programs for the elderly.
  - a. Means-tested programs help a lot of poor Americans escape some of the ravages of poverty.
  - b. Even though the expenditures for these poverty programs are substantially less than those provided for entitlement programs, they have raised many of the poor above the official poverty line.

## III. INCOME, POVERTY, AND PUBLIC POLICY

### A. Who's getting what.

1. The concept of **income distribution** describes the share of national income earned by various groups in the United States.
  - a. The distribution of income across segments of the American population is quite uneven.
  - b. During the 1960s and 1970s there was relatively little change in the distribution of income in America.
  - c. The 1980s were a period when the rich got richer and the poor got poorer, with income and wages distributed more unequally among working people.
2. **Income** is the amount of money collected between any two points in time (such as a week or a year); **wealth** is the amount already owned (including stocks, bonds, bank accounts, cars, and houses).
  - a. Studies of wealth display even more inequality than those of income, with the top one percent of the wealth-holders currently possessing about 37 percent of all American wealth.

### B. Who's poor in America?

1. To count the poor, the U.S. Bureau of the Census has established the **poverty line**, which takes into account what a family would need to spend to maintain an "austere" standard of living (defined in 2000 as an annual income below \$14,129 for a family of three).
2. Poverty in America is concentrated among a few groups, including African-Americans, Hispanics, unmarried women, and inner-city residents.

3. Because of the high incidence of poverty among unmarried mothers and their children, experts on poverty often describe the problem today as the **feminization of poverty**.

C. How public policy affects income.

1. The government spends one out of every three dollars in the American economy, and thus has a major impact on its citizens' wealth and income.

2. In particular, there are two principal ways in which government can affect a person's income.

a. Government can *manipulate income through its taxing powers*.

b. Government can *affect income through its expenditure policies*.

3. Taxation.

a. In general, there are three types of taxes; each can affect citizens' incomes in a different way.

(1) A **progressive tax** takes a bigger bite from the incomes of the rich than from the poor (such as a progressive income tax that takes a higher percentage of income from the wealthy).

(2) A **proportional tax** takes the same share from everyone, regardless of income or wealth (sometimes called a "flat rate" tax).

(3) A **regressive tax** takes a higher percentage from the lower income levels than from the well-to-do (such as sales taxes, which are not overtly regressive but are regressive *in effect*).

b. The best evidence indicates that the *overall incidence of taxes* in America is proportional, not regressive or progressive.

(1) This occurs because *regressive state and local taxes* are counterbalanced by more *progressive federal taxes*.

(2) At the national level, the wealthy are paying a good deal of the income taxes used to support many government policies, including poverty-related social welfare programs.

4. Government expenditures.

a. The government can affect a person's income through its *spending* policies.

b. Benefits from government are called **transfer payments** because they transfer money from the general treasury to those in specific need.

(1) *Billions* of government checks are written every year, mostly to Social Security beneficiaries and retired government employees.

(2) Government can also give an "*in-kind payment*," something with cash value that is not cash itself (such as food stamps, healthcare subsidies, or a low-interest loan for college education).

c. Income inequality.

#### **IV. SOCIAL POLICY AND POVERTY**

A. For centuries societies considered family welfare to be a private (not a public) concern.

1. After the turn of the century, America and other industrialized societies recognized the breakdown in family-based support networks.

2. A major change in how Americans viewed government's role in providing social welfare came during the Great Depression.

B. The New Deal and the elderly.

1. After the onset of the Great Depression in 1929, many Americans began to think that governments must do more to protect their citizens against economic downturns.
  - a. External circumstances beyond the control of individuals or their families began to be seen as major contributors to poverty and need.
  - b. The federal government responded to this change by passing the **Social Security Act of 1935**—one of the most significant pieces of social welfare legislation of all time; other programs such as Medicare were added later.
- C. President Johnson and the Great Society.
  1. The 1960s brought an outpouring of federal programs to help the poor and the elderly, to create economic opportunities for those at the lower rungs of the economic ladder, and to reduce discrimination against minorities.
  2. Many of these programs were established during the presidency of Lyndon B. Johnson (1963-1969), whose administration coined the term *The "Great Society"* for these policy initiatives.
    - a. Johnson initiated antipoverty programs, community development programs, Medicare, school-aid schemes, job retraining programs, and a host of other public programs.
- D. Conservatives during Reagan's time—and many liberals agreed—convinced many policymakers that welfare was a failure.
  1. Murray maintained that these public policies discouraged the poor from solving their problems. He contended that the programs made it profitable to be poor, and discouraged people from pursuing means by which they could rise out of poverty.
  2. Gilens found that Americans tend to see welfare recipients (wrongly) as overwhelmingly African-American. Whites' welfare attitudes were strongly influenced by whether they viewed African-Americans as lazy or not.
- E. In August of 1996, President Clinton signed a welfare reform bill that received almost unanimous backing from congressional Republicans and was opposed by half of congressional Democrats.
  1. The major provisions of this bill were as follows:
    - a. Each state would receive a fixed amount of money to run its own welfare programs;
    - b. People on welfare would have to find work within two years or lose all their benefits; and
    - c. A lifetime maximum of five years on welfare was set.
  2. The law bore the lofty name of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).
  3. The cash payments to poor families once called Aid to Families with Dependent Children (AFDC) became known as Temporary Assistance for Needy Families (TANF), today's name for the means tested aid for the poorest of the poor.
  4. From the Welfare Reform Act's signing in 1996 until September 2002, the number of welfare recipients declined from 12.2 million to 5.3 million, a drop of 58 percent.
  5. Welfare reform coincided with major economic growth in the 1990s. As the twenty-first century dawned, economic recession and then terrorism strained national and state budgets. No state put the poor at the top of its spending agenda.

## **V. LIVING ON BORROWED TIME: SOCIAL SECURITY**

- A. Welfare reform over the past two decades has focused attention on:

1. The long-term sustainability of entitlement programs, particularly Social Security and Medicare, is a matter of much current debate. Indeed, as it stands now, the Social Security program is living on borrowed time.
2. The Social Security dilemma is this: The number of Social Security contributors (the workers) is growing slowly, while the number of Social Security recipients (the retired) is growing rapidly.
3. As the number of retirees grows, and their average benefit is constantly increased to cover the cost of living (called a Cost of Living Allowance), Social Security expenditures are going to increase.
4. At some point—about 2038 unless something changes—payouts will exceed income.
5. The issue of Social Security awoke in the election of 2000, when Governor George W. Bush and the Republicans proposed diverting a small portion (the suggested figure was two percent) of Social Security contributions to private retirement funds.
6. Today, the parties are split evenly, and sharply divided about programs like Social Security.

## **VI. SOCIAL WELFARE POLICY ELSEWHERE**

1. American social welfare programs are more limited in scope than is the case in other democracies.
2. Other national governments and their citizens often take a different approach to the problems of poverty and social welfare than does the United States (such as *comprehensive medical services* provided through a National Health Service).
  - a. Americans tend to see poverty and social welfare needs as individual rather than governmental concerns, while European nations tend to support greater governmental responsibility for these problems.
  - b. Europeans often have a more positive attitude toward government, while Americans are more likely to distrust government action in areas like social welfare policy.
3. *Taxes commensurate with the benefits of social policy* are also commonplace in Western European nations, far exceeding those in the United States.

## **VII. UNDERSTANDING SOCIAL WELFARE POLICY**

### **A. Democracy and social welfare.**

1. Sorting out the proper balance between *competition* and *compassion* is at the heart of policy disagreements about social welfare programs.
2. In a democracy these competing demands are resolved by government decision makers.
  - a. These decision makers are aligned with and pay allegiance to various groups in society.
  - b. These groups include members of their legislative constituencies, members of their electoral coalitions, and members of their political party.
3. In the social welfare policy arena, the competing groups are often quite unequal in terms of political resources.
  - a. The elderly are relatively well organized and often have the resources needed to wield significant influence in support of their programs.
  - b. The poor vote less and lack strong, focused organizations and money.
4. Although government benefits are difficult to enact, the nature of democratic politics makes it difficult to withdraw them once they are established.

- a. Policymaking in the United States is very *incremental* in nature, building on past policies.
- b. Tremendous pressures come from supporters to keep or expand programs and to preserve them from elimination.