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Welfare Spending and Poverty:

Cutting Back Produces More Poverty, Not Less

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ABSTRACT The "*New Consensus*" on *welfare* expresses the idea that the major problem in *social welfare* is *dependency*, not *poverty*. Much of the evidence for this perspective has come from trend line data indicating that over time poverty did not evaporate in the face of increases in social welfare spending. Using various measures of the "dependent" poor, the empirical analysis presented suggests that reducing welfare expenditures relative to need does not produce less poverty and dependency.

I

Introduction

A "NEW CONSENSUS" on welfare stresses that welfare dependency, rather than poverty, is now the major problem confronting public policy-makers. (For two contrasting views on this "consensus" see Novak et al., 1987; and Handler, 1988). Out of this consensus, Congress has forged the Family Support Act of 1988 which revises Aid to Families with Dependent Children (AFDC), the main

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cash-benefit program for non-aged poor families. The Family Support Act's major provisions are directed at moving heads of welfare families off the welfare rolls and onto the payrolls of employers in the private economy. The Act includes a series of inducements and supports geared to getting welfare recipients to take work over welfare (Funiciello and Schram, 1990). Only then will poor families start to develop the habits of self-sufficiency, start to take responsibility for their lives and begin to work themselves out of poverty (Mead, 1986).

The "New Consensus" has emerged in part out of a growing body of literature which has sought to document how welfare is part of the problem of poverty, rather than part of its solution (Anderson, 1978; Paglin, 1980; Gilder, 1981; Murray, 1984; Gallaway and Vedder, 1986; Mead, 1986; Novak et al., 1987; Glazer, 1988). This literature has offered evidence of the deleterious effects of welfare on the behavior of poor families, indicating that the increased availability of welfare and the enhanced value of welfare benefits in recent years, especially since the years of Lyndon Johnson's Great Society, have encouraged sexual promiscuity, out-of-wedlock births, the formation of female-headed families, and decreased participation in labor markets (in particular, see Murray, 1984). Welfare breeds dependency and therefore more poverty. Less, rather than more, welfare spending is the cure for our poverty ills (Wilson, 1985).

Much of the evidence for this perspective has come from trend line data indicating that over time poverty has not evaporated in the face of increases of social welfare spending. Increased social welfare spending has at best only papered over how much poverty there really is and has obscured our ability to see the persistence of what Charles Murray has called "latent" or "pre-welfare" poverty—*i.e.*, the level of poverty if people were not to (or before they did) receive welfare payments from the government (Murray, 1984). A more pointed version of this argument is that increases in cash public assistance payments to poor persons have since the 1960s not only obscured the persistence of "latent" or "pre-welfare" poverty but have in fact been one of its contributing causes (Murray, 1986; Gallaway and Vedder, 1986).

The following analysis reconsiders the trend line data that have been used to make these arguments. In the process, we raise several questions. First, what actually have been the trends in poverty and cash assistance for the poor? Second, do the trend line data indicate that increases in cash assistance expenditures lead to increases in poverty? Third, to what extent have cash assistance expenditures kept pace with the needs of the poor? Fourth, have cash assistance expenditures changed in their ability to lift the poor out of poverty? We conclude with an assessment of what our examination of these issues implies for the viability of the thesis that increases in cash expenditures on the poor have, since the 1960s, actually contributed to the persistence of poverty in the United States.

II

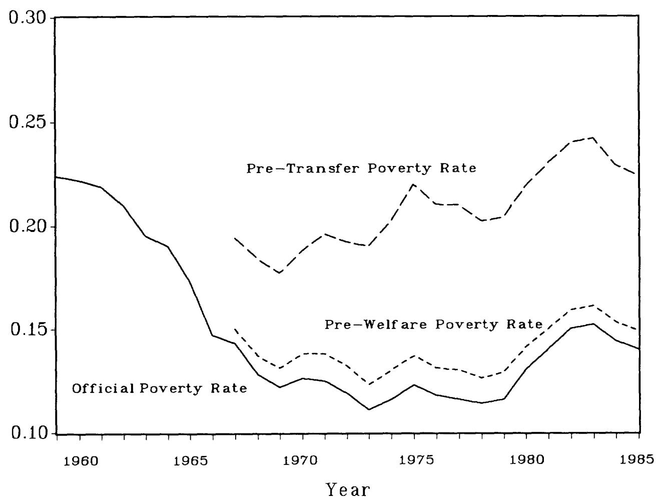
Welfare Spending and Poverty

PROVIDING DATA that can clarify causal relationships between welfare spending and poverty is not an unproblematic task. Peter Gottschalk and Sheldon Danziger (1984) have pointed to the instability of coefficients in time-series designed to dissect the differential effects of welfare spending and economic growth on poverty (also see Schram and Wilken, 1989). Perhaps, the examination of simple trend line data might provide some insights into the subject while avoiding the problems of unstable regression analysis.

Figure 1 indicates trends in poverty from 1959 to 1985. The secular decline in the official poverty rate from the 1950s until the early 1970s was replaced by first stagnation and then increases in the rate until 1985.

In addition to the official poverty rate, Figure 1 also reports the "pre-welfare" and "pre-transfer" poverty rates. The official poverty rate is calculated on the basis of all income that individuals and families receive, including welfare benefits. In order to distinguish it from the other measures, it can also be referred to as the "post-welfare" poverty rate—*i.e.,* the level of poverty *after* government income transfers, including welfare benefits, are taken into account. The "pre-welfare" rate indicates the proportion of the population with incomes below

FIGURE 1: Poverty Rates for the U.S. Population 1959–1985



Source: See Appendix.

the poverty line disregarding any income people may have received from government welfare payments. The "pre-transfer" rate is based on discounting any and all income people may have received from the government and takes into account only income from private sources. The "pre-transfer" rate therefore excludes all government payments including social insurance benefits such as Social Security as well as public assistance benefits such as AFDC. Thus, the "pre-welfare" measure disregards government welfare payments and the "pre-transfer" measure does not count any government benefits at all.

Various analysts have stressed the importance of these measures for assessing the effects of government benefit programs on poverty (Danziger and Plotnick, 1986; and Danziger, Haveman and Plotnick, 1986). These measures are useful in several respects. Their usefulness derives from providing an indication of the level of poverty independent of the income derived from government sources. They do not, however, strictly indicate the level of poverty in the absence of income transfers or welfare benefits, because undoubtedly under such hypothetical circumstances there would be greater economic productivity, less taxation and hence less poverty. Yet, they still provide a reliable baseline for comparing changes over time in the level of poverty independent of government benefits. When compared with the official ("post-welfare") poverty rate, they are useful for assessing the extent to which government benefits reduce poverty levels (Danziger and Plotnick, 1986). In addition, these measures also provide a meaningful basis for assessing adverse effects of government expenditures on pre-existing poverty rates. In particular, the "pre-welfare" measure can be used to assess whether government cash welfare payments have contributed to increases in these poverty levels or what Murray called "latent" poverty (Murray, 1984).

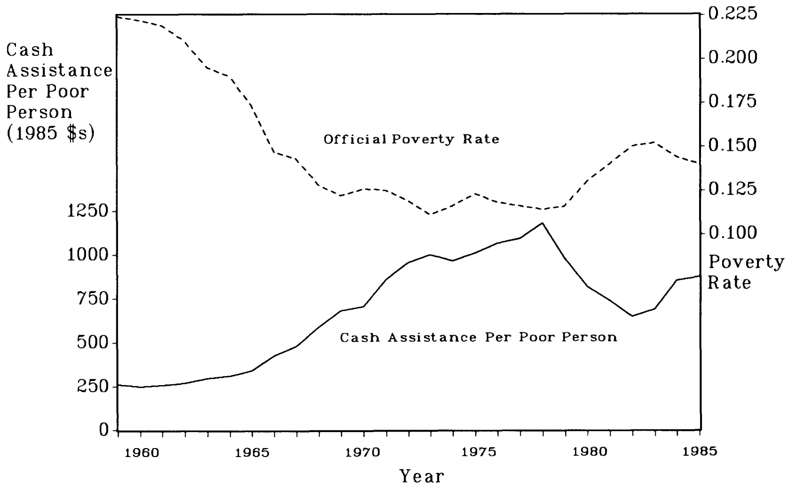
In other words, since these measures provide an indication of the level of poverty independent of income from government sources, they can be used to assess how government benefits affect pre-existing poverty levels, positively or negatively. For instance, should the "pre-welfare" poverty rate vary positively with welfare spending, it could, on the one hand, indicate that welfare grows in response to the failure of the market economy and other government transfers to lift people out of poverty or it could, on the other hand, indicate that people are less likely to rely on the market and other transfers, the more welfare is available. Conservatives have stressed the latter interpretation and that is the one subject for scrutiny in the following analysis.

The "pre-welfare" and "pre-transfer" measures are available in consecutive series only from 1967 (Slotsve and Donley, 1988). In Figure 1, the measures show fluctuation in an upward direction particularly in the 1980s. If anything, there is something to the idea that "latent" poverty has persisted and in recent years has increased.

Yet, to what extent, if any, do the government's cash welfare payments play a role in the persistence and increases in poverty, "latent" or otherwise? Figure 2 shows the official poverty rate and cash public assistance payments per poor person from 1959–1985. Increases in payments are mirrored by declines in the poverty rates. The official poverty rate takes into account income from the government and therefore we would logically expect that when cash assistance to the poor declined, the poverty rate would mirror that with an increase.

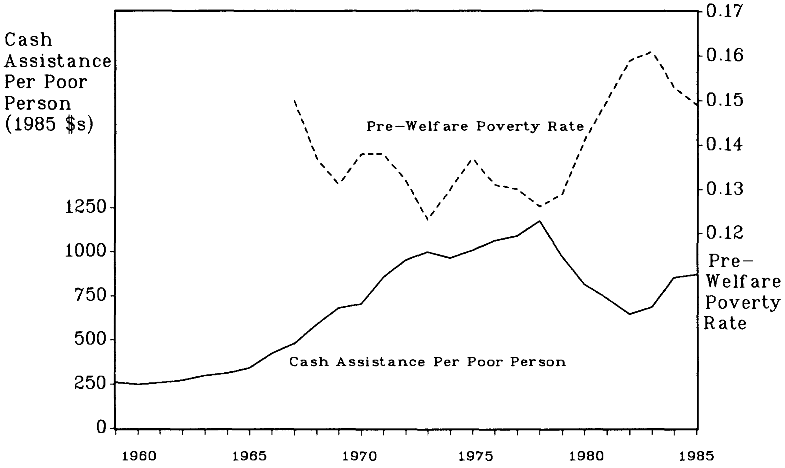
More interestingly, we find similar relationships between welfare spending and the "pre-welfare" (Figure 3) and "pre-transfer" (Figure 4) poverty rates. These measures do not take welfare payments into account; however, they both indicate decreases in poverty when spending grew in the late 1960s and increases in poverty when welfare payments decreased in the late 1970s and early 1980s. Figures 3 and 4 do not show the mirror-like effect that was found for welfare expenditures and the official poverty rate; however, the data suggest an inverse relationship between welfare spending and "dependent" poverty in recent years. Spending per person is adjusted to constant 1985 dollars. This is the antithesis of what the dependency theorists have argued when they have suggested that increases in welfare spending lead to increases in "latent" or "dependent"

FIGURE 2: Official Poverty Rate and Cash Assistance Per Poor Person (1985 $s)



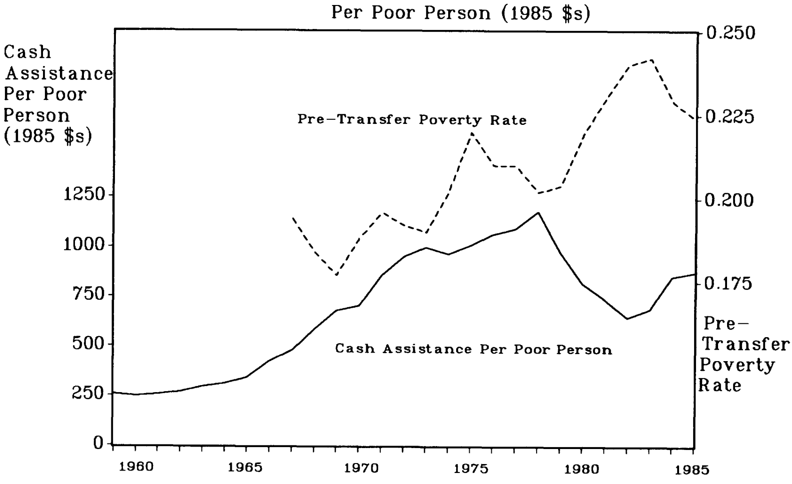
Source: See Appendix.

FIGURE 3: Pre-Welfare Poverty Rate and Cash Assistance Per Poor Person (1985 $s)



Source: See Appendix.

FIGURE 4: Pre-Transfer Poverty Rate and Cash Assistance Per Poor Person (1985 $s)



Source: See Appendix.

poverty. We are not suggesting that these data constitute evidence that welfare expenditures in various ways, such as serving as an economic stimulus, produce less rather than more "latent" poverty, though that may indeed be the case. Nonetheless, it is clear that these data do not constitute evidence that increases in welfare spending produce more "latent" poverty.

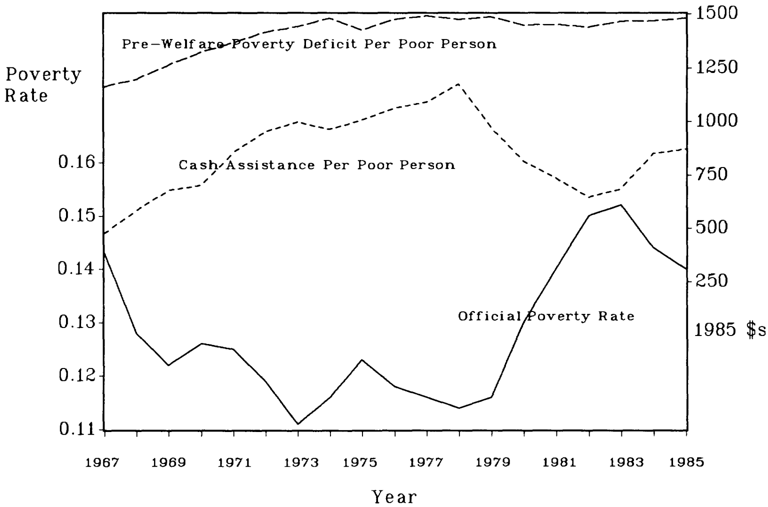
III

More Is Less

SOME INSIGHT into the inverse relationship between welfare spending and poverty rates is provided by Figures 5 through 7. One reason poverty rates have increased even as welfare spending has remained at high levels is the decline in the real value of public assistance expenditures in the late 1970s and early 1980s (Schram and Wilken, 1989). Another possible reason is that welfare expenditures have not kept pace with the needs of the poor. Therefore, while expenditures may seem high, they may actually have declined relative to need. Figures 5–7 suggest that this may in fact have been the case.

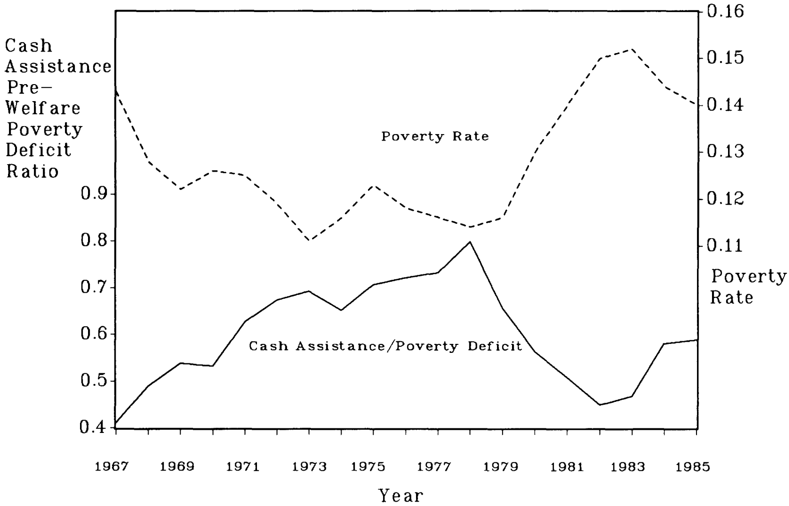
Figures 5–7 present trend lines for the poverty rate, cash public assistance payments and the "pre-welfare" poverty "gap" or "deficit." The poverty "gap" or poverty "deficit" is the total amount of money needed to lift the poor up to

FIGURE 5: Official Poverty Rate, Cash Assistance Per Poor Person and Pre-Welfare Poverty Deficit Per Poor Person (1985 $s), 1967–1985



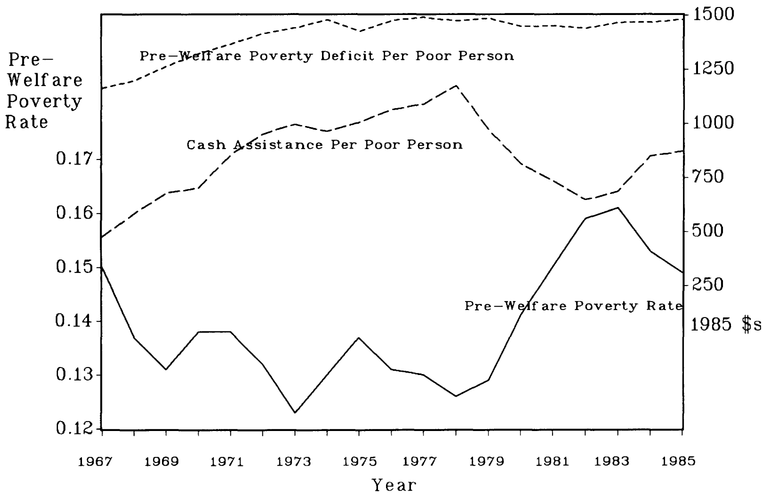
Source: See Appendix.

FIGURE 6: Official Poverty Rate and Cash Assistance as a Proportion of the Pre-Welfare Poverty Deficit, 1967–1985



Source: See Appendix.

FIGURE 7: Pre-Welfare Poverty Rate, Cash Assistance Per Poor Person and the Pre-Welfare Poverty Deficit Per Poor Person (1985 $s), '67–'85



Source: See Appendix.

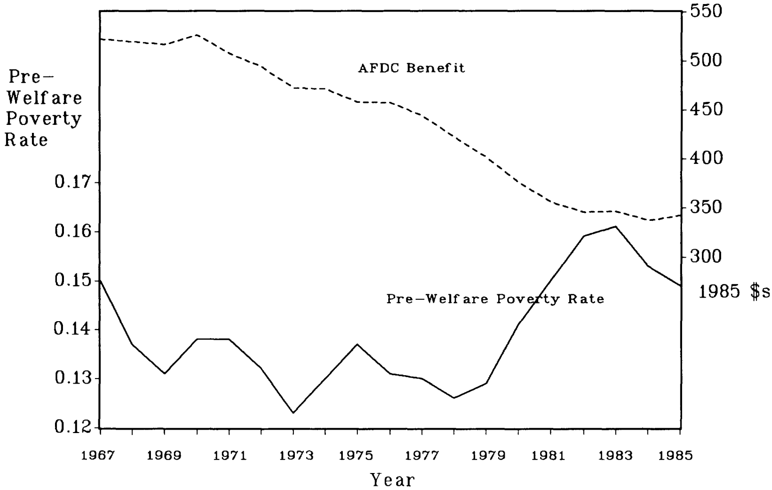
the poverty line. The "pre-welfare" poverty "gap" is the total amount needed to raise the "pre-welfare" poor up to the poverty line. It is the amount needed before people receive welfare benefits. It is therefore an excellent indicator of how much additional income the poor need in order to escape poverty (Danziger, Haveman and Plotnick, 1986; and Slotsve and Donley, 1988). The "pre-welfare" poverty "deficit" is available from 1967 (Slotsve and Donley, 1988).

Figure 5 shows that in the late 1970s and early 1980s when total cash assistance expenditures declined relative to the "pre-welfare" poverty gap, the official or "post-welfare" poverty rate soared. Figure 6 presents the cash assistance and poverty "gap" data of Figure 5 as a ratio of the former to the latter and shows just how sensitive the official poverty rate is to the ability of expenditures to match need. Figure 6 starkly reveals the mirror-like pattern that, when expenditures lagged relative to need, especially in the late 1970s and early 1980s, the official poverty rate increased. The official poverty rate, however, is in part based on cash assistance and we should therefore expect, to some extent, corresponding increases in the official poverty rate with decreases in government welfare expenditures relative to need. [It is important to note that dependency theorists have often made the opposite claim—*i.e.,* that increases in spending have led to increases in the official poverty rate, (see Gallaway and Vedder, 1986)].

Figure 7 shows however that the "pre-welfare" poverty rate also increases when government welfare expenditures are scaled back relative to need. If Figure 7 were to offer support for dependency theorists, it would have to show that either when cash assistance expenditures increased or, alternatively, when the gap between cash assistance and the poverty deficit lessened (*i.e.,* when expenditures began to approximate need), the "pre-welfare" poverty rate would go up. Instead, we find exactly the opposite: when expenditures in the late 1970s and early 1980s declined, especially relative to need, the "pre-welfare" or "latent" or "dependent" poverty rate increased markedly. In fact, the "pre-welfare" poverty rate shadows the official poverty rate. "Dependent" poverty or the inability to get out of poverty without relying on government expenditures increased when expenditures fell relative to need, not when they grew.

More direct evidence against the "latent" poverty argument is found in Figure 8 which compares the average monthly AFDC benefit for the average recipient family in constant 1985 dollars and the "pre-welfare" poverty rate. There has been a secular decline in the AFDC benefit from 1970 on and there is nothing in that trend that can be used to suggest that increased welfare benefits have contributed to increases in "dependent" poverty. Food Stamps are almost always provided with AFDC benefits; however, if we were to count them, they would not reverse the slide in benefits in recent years when "dependent" poverty has increased. Since the advent of a uniform national Food Stamp program in 1974,

FIGURE 8: Pre-Welfare Poverty Rate and Annual Average Monthly AFDC Benefit Per Family (1985 $s), '67–'85



Source: See Appendix.

states have sought to have fully-federally funded Food Stamps, rather than partially-federally funded AFDC benefits, assume a greater proportion of the total welfare grant (Moffitt, 1988; Funiciello and Schram, 1990). The net result is that combined benefits fell in the 1970s and early 1980s just when "dependent" poverty was increasing (U.S. House of Representatives, Committee on Ways and Means, 1988). It is simply impossible to use these data to suggest that increases in benefits are the cause for increased welfare dependency. Instead, there is more evidence for the idea that the declines in welfare expenditures, particularly relative to increased needs, have contributed to both growing poverty and dependency.

On the basis of the foregoing, we can suggest that it is entirely possible that a combination of change in the composition of the poverty population and declines in the real value of welfare benefits are responsible for the decreasing effectiveness of welfare expenditures in lifting the poor out of poverty. Since the mid-1970s, the poverty population has been undergoing rapid change and is now increasingly made up of female-headed families who often are not prepared to get and keep jobs which can ensure that their families will permanently escape poverty. Under such conditions, there is likely to be a decline in the anti-poverty effectiveness of each welfare dollar and we need perhaps to spend more per poor person in order to just maintain the previous poverty reduction rates of welfare expenditures. At the same time, the real value of welfare benefits for this portion of the poverty population has been, as we have seen, declining dramatically, just when arguably we need to spend more per poor person, because of their greater disadvantage, in order to enable them to escape poverty. The net result is that static or even marginally increased levels of welfare expenditures can actually been seen as less relative to the greater need of the poverty population (see Danziger, Haveman, and Plotnick, 1986).

IV

Conclusion

OUR ANALYSIS SUGGESTS there is very little support for the idea that increases in welfare spending are at the root of the persistence of poverty and are the main cause of welfare "dependency." Instead, we find evidence for the opposite proposition: *decreases in welfare spending have increased poverty,* including "dependent" poverty. This is especially the case when one appraises welfare spending relative to need.

Analysts who have suggested that more welfare spending has produced more poverty have failed to consider spending relative to need. When we examine spending in recent years relative to the need for such expenditures, more (spending) becomes less (relative to need). This is perhaps one reason for the divergence of our findings: where dependency theorists see more spending, we see less, relative to need. The data we have presented suggest that a main cause for the persistence of poverty is not increases in welfare spending but the failure of welfare expenditures to match need.

Dependency theorists have argued that we should not expect simple one-to-one relationships between welfare spending and dependency (Murray, 1986; Gallaway and Vedder, 1986). They also have argued that the availability and value of welfare benefits remain high enough to discourage work and the formation of two-parent families and to encourage welfare dependency (Murray, 1986; Mead, 1987; Glazer, 1988). These arguments are useful for suggesting that the foregoing trend data are inconclusive. Admittedly, these data are not conclusive, but it is important to remember that a major source of evidence for the dependency argument has been trend data such as we have reviewed (see Murray, 1984; Gallaway and Vedder, 1986). Our analysis suggests that the trend data no longer, if ever, supported the dependency argument and therefore, dependency theorists who now rely on such data are left with only the aforementioned caveats as the basis for their argument. Rather than the trend data supporting the dependency argument, they more often provide evidence against it. While dependency theorists might want to denigrate these data, they no longer can use them effectively to make the dependency argument. Instead, the trend data provide evidence for the argument that less, rather than more welfare has been contributing to poverty in recent years.

In times when much is made of how "dependency" is the main cause of poor people's problems, the idea that a lack of welfare spending is an important factor in promoting poverty is not popular. In addition, there is good reason to suspect that no amount of evidence will automatically dislodge the prevailing notions of dependency, given that their ascendancy has emerged more from ideological disputation than from compelling factual analysis (Hoover and Plant, 1989). Yet, depriving poor people of needed income does much to retard their ability to acquire needed resources and impede their efforts to create the conditions under which they might be able to put their lives on a better footing and begin the process of lifting themselves out of poverty. Fears of creating a welfare dependent population go a long way to ensuring that welfare benefits will not match needs and that they will continue to be an insufficient source of needed income. Under these circumstances, less, not more, welfare creates dependency. The evidence presented in the foregoing analysis suggests the need to reconsider this perspective.

Appendix on Data Sources

Poverty Rates:

(1) Official Poverty Rate: U.S. Bureau of the Census, *Characteristics of the Population Below the Poverty Level* (Current Population Reports, P-60 series).

(2) Pre-Welfare and Pre-Transfer Poverty Rates: Slostve and Donley (1988) based on analysis of annual Current Population Survey.

Number of Poor Persons:

U.S. Bureau of the Census, *Characteristics of the Population Below the Poverty Level* (Current Population Reports, P-60 series).

Cash Assistance:

U.S. Bureau of the Census, *Statistical Abstract of the U.S.*

AFDC Benefit:

U.S. Bureau of the Census, *Statistical Abstract of the U.S.*

Pre-Welfare Poverty Deficit:

Slostve and Donley (1988) based on analysis of annual Current Population Survey.

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