

# THE POLITICS OF POVERTY AND THE POVERTY OF POLITICS

*Dwight R. Lee*

[T]he poor [may] deserve more, but if the government tries to provide more, it will not do anyone any good.

—Nathan Glazer<sup>1</sup>

## Introduction

The notion that we have to depend on government to assist the poor has acquired the status of revealed truth. Even those who acknowledge the unparalleled success of market economies at creating wealth are uneasy about, if not outright hostile to, the market distribution of this wealth. There can be no denying that some people will be left behind by market competition. Indeed, the very success of the market at creating wealth comes from the fact that it constantly threatens people with poverty; and when consumers signal with their thumbs down, the threat is carried out without mercy.

But even if it is assumed that the market fails to generate a distribution of income that most people find satisfactory, does this justify government programs to promote a more acceptable income distribution? The answer depends crucially on whether or not there are reasons for believing that such government programs will improve matters. If, for example, government welfare programs impose a heavy burden on economic productivity, yet are incapable of changing the distribution of income in a more acceptable direction, then the “failure” of the market with regards to income distribution would provide no justification for government intervention in the market process.

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<sup>1</sup>“Reagan’s Social Policy—A Review,” *The Public Interest* (Spring 1984): 94.

The importance of comparing realistically the income distribution consequences of the market process with those of the political process may seem obvious. But in fact, such a comparison is seldom made. The market process is seen to be driven by competition between self-seeking individuals who are unconcerned about the impact of their decisions on the overall distribution of income. Income inequality is correctly judged to be endemic to the market process. On the other hand, the political process is seen to be driven by concern for broad social objectives. The prime motivation for government transfer programs is assumed to be to help the poor and reduce income inequality. If these programs fail in what they were set up to accomplish, the problem is seldom seen to be anything inherent in the political process that spawned the programs.

The evidence is strong that government transfer programs have failed. The U.S. Bureau of the Census announced in August, 1984 that 35.3 million people, or 15.2 percent of the population, were *living in poverty*. This is a startling statistic given the enormous amounts the government is spending on social welfare programs. Though it is difficult to pin down the total welfare bill with precision, it has been estimated that it came to over \$403 billion in 1982.<sup>2</sup> This amounts to \$11,730 per officially designated poor person, or \$46,920 for each poor family of four.

But predictably, the blame for this blatant failure seldom cuts to the fundamentals of the problem: a realistic assessment of the political process. At the partisan level, the blame is placed on insufficient funds for these programs, with the Reagan budget "cut backs" being singled out for special criticism. Although funding was reduced for some poverty programs during the early years of the Reagan administration, overall spending for poverty programs continued upward during the 1980s. More important, since 1973 there has been a persistent increase in the number of poor as measured by the Bureau of the Census. An explanation of the existing level of poverty, given the amounts being spent to eliminate it, requires something more sophisticated than an attack on the Reagan administration for being insensitive. The seriousness with which this attack is made, and widely accepted as justified, reflects the reluctance to subject the political process behind transfer programs to the same critical examination to which the market process is subjected.

<sup>2</sup>This figure comes from Jonathan Hobbs, "Welfare Need and Welfare Spending," Heritage Foundation Backgrounder, Washington, D.C., 13 October 1982, and includes only the welfare component of Social Security payments.

Even those most critical of the government welfare programs seldom see the problems as inextricably tied to the political process. Favorite targets are fraud and corruption that should be rooted out with tighter controls over existing programs. Others see the solution coming from reforming existing programs; such as reducing reliance on in-kind transfers with more aid being provided in the form of cash payments.<sup>3</sup> But such calls for reform have been made for decades, and they have always been rendered politically impotent. In any event, welfare fraud can account for only a small amount of the cost of our welfare industry. And given the outpouring of scholarly articles on the poverty question, it is difficult to argue that the failures of our poverty programs can be reversed with yet more advice on desirable reforms.

It is not, then, the purpose of this paper to suggest welfare reform. Rather, an effort will be made to explain why poverty has been, and will continue to be, amazingly immune to political measures to alleviate it. In order to accomplish this, we will subject the political process to the same type of analytical scrutiny which economists have always applied to the market process. This means incorporating the same motivational assumption into our political analysis as is incorporated into standard economic analysis: namely, that individuals are motivated predominantly, though not solely, by considerations of self-interest.<sup>4</sup> Proceeding with this self-interest assumption, we will be led to the conclusion that political activity is not likely to significantly alter the distribution of income away from that which results from market activity. Furthermore, this theoretically arrived at conclusion is shown to be empirically supported.

The implication of this is rather depressing. If government transfer programs reduce the productivity of the economy (which they obviously do), and if they fail to alter the distribution of income in favor of the poor, it necessarily follows that these programs have made the poor worse off. Even more depressing is the inability to respond appropriately to this unfortunate situation through the means of ordinary politics. As will be seen, it is the very failure of social welfare programs that explains their political viability.

<sup>3</sup>See Hobbs, "Welfare Need." Also for a list of suggested reforms in our approach to social welfare spending, see John C. Goodman, "Poverty and Welfare" in *To Promote Prosperity: U.S. Domestic Policy in the Mid-1980s*, ed. John Moore (Stanford, Calif.: Hoover Institution Press, 1984).

<sup>4</sup>Even if one chooses to quibble with this assumption, no one can argue persuasively that objectivity is served by applying it to the market process but not to the political process.

## Who Benefits from Poverty Programs?

It is useful to begin by asking: What is the motivating political force behind government poverty programs? Given the self-interest postulate, the natural way to proceed is to look first to those who stand to gain from such programs.

It is obvious that those who will be the direct recipients of transfer programs will see advantages in supporting them politically, and can be expected to do so. It is undoubtedly true that many people may be reluctant, at least initially, to accept charity, either public or private. But most people are remarkably adept at rationalizing the acceptability, indeed virtue, of things that provide them benefits, and transfer payments seem no exception.

It is easy, however, to overestimate the influence of the poor on the size and structure of poverty programs. The political process responds to the concerns of majorities when these concerns are expressed clearly at the polls, and to pressures from relatively small groups that are well organized around a common interest, typically an occupational or professional interest. The poor are in the minority, are less likely to vote than more affluent citizens, and are seldom organized into politically focused groups. It is unlikely, then, that the poor will be very effective in the competition for political influence. Indeed, if the poor had the skills and attributes that are necessary for effective political action, they would not be poor. So while the political demands of the poor will no doubt push in the direction of increasing the funding for poverty programs, the magnitude of this influence will probably be small.

A more effectively organized and politically potent group with a vested interest in expanding government programs to aid the disadvantaged, is made up of those whose employment depends on these programs. These people include the several million people who are employed either directly by government welfare agencies, or who as private contractors and academic researchers assist and advise these agencies. With the job security and income of these people tied to the funding of poverty, and poverty related, programs, they have a common and dominant interest in the continuation and expansion of this funding. When this focused interest is coupled with the relative ease with which people can organize for political action through their employee organizations, poverty professionals become much more effective at obtaining political funding for poverty programs than the poor themselves.

Another group which has a strong private interest in particular types of programs for assisting the poor are those who supply products

that it is believed the poor should have but can not be depended upon to buy, even if they had the money. An implicit assumption behind the structure of many poverty programs is that the poor are not responsible enough to make proper consumption decisions. Of the income transfers that are means-tested, provided only if the recipient has a sufficiently low income, only a little more than one-third is in the form of cash payments.<sup>5</sup> The remaining aid takes the form of food, medical attention, housing, educational benefits, and so on. One can be sure that the agricultural lobby, the American Medical Association, along with the construction and education associations, have significant political input into the decisions on the funding of in-kind programs. It should surprise no one, for example, that the incomes of medical doctors are increased by government programs like medicaid which provide poor people with medical care.

The emphasis of self-interest does not imply that people, whether in their public or private capacities, are completely lacking in compassion and concern for others. Indeed, a discussion of the motivations for political action would be woefully deficient if it did not recognize that people do have genuinely charitable feelings for the less fortunate. People not only have these feelings, they also give them political expression at the polls. Furthermore, expressions of charitable feelings will be exaggerated when transmitted through voting behavior. There are two reasons for this. First, our desire to be charitable is like all of our other desires: It is decreased when the cost goes up and increased when the cost goes down. Second, the individual will perceive the cost of making charitable contributions to be lower when made collectively (through voting, for example) than when made privately.

Most people make private donations to charitable organizations because they realize a genuine sense of satisfaction from helping others. But these donations impose a direct cost on the individuals making them, and this cost is taken into consideration when deciding how much to give. As a consequence, when it comes to reaching in one's pocket to support worthy causes, most people are charitable, but not very charitable. Now consider the situation where the decision on how charitable to be is made by casting one's vote. Voting is a very effective way for individuals to satisfy their expressive urge (to make a statement) but an individual vote is unlikely to have any effect on the final outcome. This is simply a matter of arithmetic. In a national election, with tens of millions of votes being cast, the probability that one vote will be decisive is effectively zero. People

<sup>5</sup>See Goodman, "Poverty and Welfare," p. 144.

are aware of this fact and recognize that the taxes they will actually end up paying for public assistance programs is completely independent of how they vote on these programs. The political process removes the conflict between the desire to feel charitable and the personal cost of actually being charitable. The good feelings individuals get from expressing generosity in the voting booth is a real bargain.<sup>6</sup>

Having discussed the incentives that exist for people to turn to the political process as a vehicle for transferring wealth to the poor, the next question is: How effective at helping the poor can we expect government transfer programs to be?

## The Eroding Effectiveness of Government Assistance

Government transfers from the general community to targeted groups such as the poor can obviously make the recipients better off, at least temporarily. The long-run effectiveness of government transfer programs is not so obvious. The reasons for expecting the effectiveness of these programs to decline over time fall under two general headings: first, the dynamics of the political response to transfer programs and second, the recipient and private sector response to these programs.

### *Political Responses*

The political responses to transfer programs, once they are in place, are best understood by considering the previously discussed political motivations for initiating these programs. The important thing to recognize is that the private interests benefiting from the existence of a transfer program will also benefit from, and therefore favor, its expansion. Those who work for the government agencies administering these programs, either directly as employees or indirectly as outside consultants and researchers, will benefit from their expansion. They are more likely to receive promotions, perquisites, job security, prestige, and power if their agencies are expanding than if they are stagnant or in decline.

Transfer agency professionals, then, have a clear incentive to structure their programs in such a way as to broaden their political appeal. This can be done by arranging it so that fairly narrow, but politically

<sup>6</sup>For an elaboration of this point, see Gordon Tullock, "The Charity of the Uncharitable," *Western Economic Journal* 9 (December 1971): 371-92. It should also be pointed out, that just as benevolent feelings can be magnified through the political process, so can malevolent feelings. Just as individuals in a mob are capable of committing atrocities collectively that they would never consider committing as individuals, so individuals may vote for atrocities that few, if any, would favor if their decision were controlling.

organized, interests benefit from an expansion of the program. It is in the interest, then, of government purveyors of benefits to the poor for many of these benefits to take the form of in-kind services provided by politically active occupational groups such as medical doctors, college professors, and farmers. It is also in the interest of the transfer establishment to expand the number of recipients to public generosity as this serves both to increase the size of their agencies and broaden the relevant base of political support.

The compatibility between the interests of government employees of transfer agencies, the interests of potential providers of in-kind services, and the interests of "deserving," but not necessarily poor, recipient groups is obvious. Once a particular transfer program is in place, those interest groups that the program benefits, or potentially benefits, can be expected to coalesce politically behind it. The effectiveness of these interest group coalitions will, in general, increase with time. Any organizational effort will encounter inevitable start up problems and it will take time and experience to overcome some of the free-rider problems that even quite small groups face.<sup>7</sup> Therefore, the longer a transfer program has been around the more pressure politicians will face to structure and fund it in accordance with the interests of those who are not necessarily poor. Of course, the poor may realize some benefit from this special interest pressure since it will be to the advantage of the special interests to push for, among other things, additional funding for transfer programs. The increased effectiveness over time of the transfer coalition will not be matched by a similar increase in the political effectiveness of the unorganized taxpayers who shoulder the costs of the transfer programs. With these costs widely spread over the entire population they will be almost invisible politically. So once a transfer program has been initiated, the tendency will be for it to expand.<sup>8</sup>

That transfer programs have expanded, there can be no doubt. Medicaid, which provides medical care to the poor, grew to a \$27.6 billion program in 1981, up from only \$0.5 billion in 1965. Medicare,

<sup>7</sup>For a very interesting discussion of this point and its wide ranging implications, see Mancur Olson, *The Rise and Decline of Nations* (New Haven, Conn.: Yale University Press, 1982).

<sup>8</sup>This is not to say that there is no political resistance to the expansion of transfer programs. Obviously there is, or they would quickly expand beyond limit. If a program favored by one interest group is expanded it will, to some extent, do so at the expense of a program favored by another politically influential group. But this conflict can be moderated by pushing back the political budget constraint by imposing more cost on the public. And this is exactly what the politician will be under constant pressure to do.

which provides medical care for the old, grew from nonexistence status in 1965 into a \$38.4 billion program in 1981. The Food Stamp program cost \$9.7 billion in 1981, a 243-fold increase over its 1965 cost of \$40 million. Aid to Families with Dependent Children (AFDC) went from a cost of \$1.7 billion in 1965 to a 1981 cost of \$12.8 billion, while over the same interval the Housing Assistant program increased from \$300 million to \$6.6 billion.<sup>9</sup> Not only do transfer programs experience a period of rapid growth, but also, as one would expect with the interest groups that coalesce around transfer programs becoming more influential over time, this growth tends to occur in ways that increasingly benefit these interest groups. For example, with those groups which supply in-kind benefits through poverty programs benefiting by extra demand for their products, organizations such as the American Medical Association and the Mid-American Dairymen will be pushing for an expansion of in-kind transfer programs. Therefore, it should come as no great surprise that while cash transfers to the poor increased 402 percent from 1965 to 1981, in-kind transfers to the poor increased by 5,226 percent over the same period.<sup>10</sup>

But are not the poor made better off by expansions in transfer programs, whether the benefits are provided in-kind or otherwise? Very likely the answer is no. The reason for this is that the expansion often results from extending the coverage of a means-tested program exclusively for the poor to one that also provides transfers to the nonpoor. Even if the poor continue to receive the same benefits after such an expansion as before, they are still worse off by virtue of the fact that at least part of the additional benefits will be financed through higher taxes on the poor. Also, once the nonpoor are allowed to compete against the poor for transfers it will commonly be the case that benefits received by the poor are reduced. Those with relatively high incomes have outcompeted the poor in the private sector and there is no reason to doubt that they will do the same in the public sector.

Consider the case of the British National Health Service (NHS) that, in 1948, promised unlimited free medical health care of the highest quality to all. If political promises constituted genuine commitments the NHS should have been no threat to the poor, and indeed

<sup>9</sup>These statistics come from Sheldon Danziger, Robert Haveman, and Robert Plotnick, "How Income Transfer Programs Affect Work, Saving, and the Income Distribution: A Critical Review," *Journal of Economic Literature* 19 (September 1981): 975-1028, Table 1.

<sup>10</sup>These figures were compiled by Goodman, "Poverty and Welfare," p. 145.



should have benefited them. Before 1948 the poor in Britain received medical attention through public and private charitable contributions targeted specifically to the poor. It would be naive, of course, to believe that this medical care was typically of the highest quality. But it also would be naive to accept political promises at face value, and there are reasons for believing that the NHS *reduced* the quality of medical care for the poor. By 1949 the soaring cost of the NHS forced British politicians to face economic reality and impose a ceiling on the NHS budget. Available health care was limited by the budget to less than Britons' wanted at zero price, and therefore had to be rationed by the authorities. Although the political rhetoric suggests that this rationing would be done on the basis of medical need, the reality was, and still is, far different. In obtaining medical attention from the NHS an individual's political influence, community standing, and personal contacts have always been important considerations, possibly more important than the individual's medical problems, and this obviously favors the nonpoor over the poor. This has been recognized even by supporters of the NHS such as the late Richard Titmuss who complained in 1968 that

the higher income groups know how to make better use of the NHS. They tend to receive more specialist attention; occupy more of the beds in better-equipped and staffed hospitals; receive more elective surgery; and better maternity care, and are more likely to get psychiatric help than low income groups—particularly the unskilled.<sup>11</sup>

The evidence suggesting that the poor in Britain have been harmed by the expansion of transfer payments that took place through the NHS is rather dramatic. The death rate of the poorest segment of the British population actually increased after the NHS went into effect, and this was at the time medicine was being revolutionized with the introduction of antibiotics and the overall death rate was dropping.<sup>12</sup> Furthermore, the death rate for the least advantaged in Britain continued upward. The male mortality rate for unskilled workers was 16 percent higher for the years 1970–72 than it was for the years 1949–53. This contrasts with decreasing mortality rates for all other classes of British males over the same period. For example, over the interval 1949–53 unskilled male workers had a mortality rate 37 percent higher than did professional male workers, but by 1970–72 the mor-

<sup>11</sup>As quoted in *The Economist*, 28 April 1984, p. 19.

<sup>12</sup>See Gordon Tullock, *Economics of Income Redistribution* (Boston: Kluwer-Nijhoff Publishing, 1983), pp. 100–1.

tality rate of unskilled male workers was 78 percent higher than that of professional male workers.<sup>13</sup>

In the United States government transfer payments for medical care have expanded rapidly in recent years as the program targeted to the poor, Medicaid, has been joined by Medicare, which is a non-means-tested program for those over 65. This expansion has almost surely made the poor worse off as they now have to pay taxes to provide medical care for the nonpoor. Those over 65 are, on average, wealthier than those less than 65, and the Medicare program is larger and has grown more rapidly than the Medicaid program.<sup>14</sup> Also, because the Medicare and Medicaid programs have become much more expensive than anticipated when first established, measures to eliminate their expenditures have been seriously considered. If such limits are imposed the political competition between the poor and the nonpoor will become much more direct and those who are most disadvantaged will surely become more disadvantaged.

Another program that was originally aimed at assisting the less affluent is the student loan program which subsidizes students by providing them with low interest loans. Until 1978 these loans were seldom available to a student whose family earned more than \$25,000 a year. In 1978, however, Congress yielded to the influence of the higher education community and expanded the student loan program to include those from high income families. By 1982 the volume of student loans had increased by a factor of five.<sup>15</sup> The subsidy component of this program was further increased by the fact that the federal government has been lax in making sure these loans are repaid. At one point in 1982 the default rate on student loans was 12.5 percent. A report by the General Accounting Office showed that 6,000 doctors had defaulted on student loans totaling \$5.2 million. One doctor who had reportedly received \$623,000 in Medicaid payments had not repaid a federal loan for medical school of \$4,750.<sup>16</sup> In addition to loan subsidies the federal government has also transferred direct financial aid to students, and those who are by no means poor receive a major portion of this aid which totaled over \$6.2 billion in 1981. After the taxes of the poor are taken into consideration, it is by

<sup>13</sup>These figures come from *The Economist*, 28 April 1984, p. 19, Table 2.

<sup>14</sup>For a detailed discussion of how Medicare discriminates against the poor, see John C. Goodman, "Solving the Medicare Crisis," *Cato Institute Policy Report* (February 1984): 6-9.

<sup>15</sup>Jane Bryant Quinn, "The Student Loan Scare," *Newsweek*, 24 May 1982, p. 68.

<sup>16</sup>Dennis P. Doyle, "The Federal Student Aid Mess," *Wall Street Journal*, 19 May 1982, p. 28.

no means clear that as a group they receive positive net benefits from these student aid programs.

*Private Responses*

Over time private responses to the existence of government transfer programs tend to weaken the effectiveness of these programs at reducing poverty. It seems reasonable to expect that as government increases the amount of money it transfers away from the general taxpayer, in order to supposedly help the poor, the amount that people contribute to private charity will decrease. And indeed there is evidence to support this presumption. Using 1948–72 data economists Burt Abrams and Mark Schmitz found that for every dollar increase in government welfare expenditures, private charity was reduced by 28 cents.<sup>17</sup> But other studies have suggested that the private charitable contributions have actually increased slightly as public transfers have gone up.<sup>18</sup> One could explain this by arguing that higher government transfers have resulted in higher marginal tax rates and this, of course, lowers the cost of tax deductible charitable contributions. So it appears that the affect of government transfers on private charity is ambiguous.

It is important to recognize, however, that the above studies follow the Internal Revenue Service in their definition of private charity. And, U.S. tax law allows contributions that have little if anything to do with helping the poor to qualify as tax deductible charitable contributions. If the composition of these charitable contributions is examined one finds that as public transfers began increasing in the 1930s private giving shifted significantly away from helping the poor and into the support of religious organizations, education, health, and the arts. In his study of the effect of public transfer programs on private giving, economist Russell Roberts concluded, "The huge growth in public transfers in the 1930s crowded out private antipov-erty efforts and fundamentally changed the nature of private charity."<sup>19</sup>

Government transfer programs also impact on the decisions made by recipients, and when these recipients are poor they are often motivated to make decisions that will, over the long-run, keep them poor. The development of human capital and employment skills is

<sup>17</sup>Burt Abrams and Mark Schmitz, "The 'Crowding-Out' Effect of Government Transfers on Private Charitable Contributions," *Public Choice* 33 (1978): 28–40

<sup>18</sup>Robert Schwartz, "Private Philanthropic Contributions: An Economic Analysis," Ph.D. dissertation, Columbia University, 1966.

<sup>19</sup>Russell D. Roberts, "A Positive Model of Private Charity and Public Transfers," *Journal of Political Economy* 92 (February 1984): 147.

the best way to rise above poverty. Any program that discourages those who are poor from actively seeking out work discourages the development of productive skills and serves to perpetuate poverty and dependency. This fact is at the heart of one of the major problems with poverty programs since these programs, in effect, impose very high taxes on earned income.<sup>20</sup> While most people associate high marginal tax burdens with high incomes, it is in fact the poorest in our country who pay the highest marginal tax rates. The recipients of AFDC, for example, lose a dollar in benefits for every dollar earned (and known to be earned by the authorities). This marginal tax rate of 100 percent can actually understate the marginal tax burden facing the poor because of the possible loss of some in-kind benefits, such as Medicaid, that results as earned income increases beyond certain thresholds.<sup>21</sup> It is not hard to predict that a response to marginal tax rates of this magnitude will be less than an ambitious effort to acquire work experience and job skills. So once an individual becomes a recipient of a program like AFDC the temptation is to respond in ways that reduce future income earning potential and increase dependency on the program.

Not only does a program like AFDC motivate a tendency toward dependency on the part of the recipient, but there is a more insidious tendency for this dependency to be passed on from one generation to the next. For many disadvantaged teenage girls the opportunity to benefit from AFDC and other social programs is the most attractive financial option they have. All they need do to take advantage of it is to have a child out of wedlock. Even if AFDC payments do not motivate an intentional decision to become pregnant, the availability of these payments clearly reduces the incentive to be careful. While marriage is always a possibility it is often not a financially attractive substitute for AFDC payments. Most mothers of illegitimate children do eventually marry but typically these marriages do not last long. As George Gilder has vividly pointed out, a low income mother will find indexed welfare benefits "more preferable in everyway to the taxable, inflatable, losable, drinkable, druggable, and interruptible earnings of a man."<sup>22</sup> The degree of substitutability between men

<sup>20</sup>For evidence that suggests strongly that the labor-force participation rate for the poor has been reduced by the growth in social welfare programs, see Charles A. Murray, *Losing Ground: American Social Policy 1950-1980* (New York: Basic Books, 1984), chap. 5.

<sup>21</sup>See U.S. General Accounting Office, "An Evaluation of the 1981 AFDC Changes: Initial Analyses," PEMD-84-6, 2 April 1984, p. 7.

<sup>22</sup>George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 123. For evidence on the apparent connection between the increased breakup of poor families and social welfare programs, see Murray, *Losing Ground*.

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and transfer payments can be debated, but the fact remains that as AFDC and other transfer benefits have grown so has the percentage of illegitimate babies born to poor mothers. It is true, of course, that many things influence the rate of illegitimate births other than the availability of transfer payments for unwed mothers. But in one study, based on a sample of unwed pregnant teenagers, it was concluded after statistically controlling for such things as age, religion, school enrollment, and ethnic origin, that those eligible for public assistance were significantly more likely to deliver their baby out of wedlock.<sup>23</sup> When this is coupled with the fact that children born out of wedlock appear to be neglected and abused with higher probability than normal,<sup>24</sup> then it is reasonable to surmise that welfare dependency in one generation tends toward welfare dependency in the next.

There is direct evidence to support the depressing view that families are being acculturated into persistent welfare status. According to one study, the group most likely to become AFDC recipients are those whose mothers were recipients.<sup>25</sup> A 1967 study by the Department of Health, Education and Welfare concluded that just over 20 percent of those AFDC mothers whose welfare history was known had received welfare as children. There is no mention of how much this figure has grown, if any, in subsequent HEW studies, but it has been estimated that "trans-generational recipients" constituted up to 40 percent of all AFDC mothers by 1980.<sup>26</sup>

It is not at all clear that the income welfare recipients receive from public transfers is any more than many of them would have been earning had they been required to take responsibility for the wealth creating consequences of their decisions. Indeed, it is surely the case that for many individuals trapped into welfare dependency they would have been better off financially had they faced stronger incentives to develop income earning skills. Through either conscious decisions or the subtle influence of acculturation, untold numbers have simply substituted publicly provided income for privately earned income with the net effect of public transfers on their incomes being close to zero or worse.

<sup>23</sup>See Victor R. Fuchs, *How We Live: An Economic Perspective on Americans from Birth to Death* (Cambridge: Harvard University Press, 1983), pp. 105-6.

<sup>24</sup>*Ibid.*, p. 28.

<sup>25</sup>Morley D. Glicken, "Transgenerational Welfare Dependency," *Journal of Contemporary Studies* 4 (Summer 1981): 31-41.

<sup>26</sup>*Ibid.*, pp. 28-29.

## The Distribution of Income

We have identified and discussed some specific reasons why the ability of government transfer programs to help the poor should be expected to weaken over time. Although supporting evidence from particular programs has been presented, the important question is whether or not the overall distribution of income has become more equal in response to the enormous amount of money that has been spent on poverty programs. Based on the evidence that exists, it appears that the impact of the huge growth in transfer programs has been rather minor. In a study of the distribution of income and wealth in the United States Reynolds and Smolensky concluded that, when the net benefits of all government programs were added to the incomes U.S. households received from labor and capital, there was no significant change in the distribution of income between 1950 and 1970. For example, according to their study, those households in the lowest 20 percent of the income distribution received 6.4 percent of national net income in 1950 and 6.7 percent in 1970. At the other end of the distribution, the percentage of net income going to those households in the top 20 percent declined slightly from 39.9 in 1950 to 39.1 in 1970.<sup>27</sup>

Given the increase in transfer expenditures that occurred over this period of time this is a rather startling result, but one quite consistent with our analysis of the political incentives that create and are created by government transfer programs. In providing their own explanation for the impotency of these transfer programs Reynolds and Smolensky state:

The very scale of government spending programs today mitigate against augmenting their capacity to redistribute net income. . . . Even if a democratic government initially directed additional benefits and costs "efficiently" toward an identifiable group, it would find efficiency hard to preserve. With such large sums at stake, more players find it worthwhile to compete for a larger share of the benefits and a smaller share of the taxes.<sup>28</sup>

More recent studies of the distribution of income have reached conclusions similar to those of Reynolds and Smolensky. For example, evidence cited in an extensive review of the literature on the affect of U.S. income transfer programs, indicated that over the period 1965 to about 1978 the "income inequality has remained relatively constant."<sup>29</sup>

<sup>27</sup>Morgan Reynolds and Eugene Smolensky, "Distribution of Income and Wealth: The Fading Effect of Government on Inequality," *Challenge* (July/August 1978): 32-37.

<sup>28</sup>*Ibid.*, p. 36.

<sup>29</sup>See Danziger et al., p. 978.



It should be pointed out that some studies indicate that government transfer programs have resulted in an income distribution that is significantly more equal than it would otherwise be.<sup>30</sup> The general approach of these studies involves comparing the post-transfer distribution of income with the counterfactual income that would have existed in the absence of government transfers. Unfortunately, estimating "what would have been" is extremely difficult and typically the comparison is between the income distribution with government transfers and the income distribution that results when these transfers are eliminated. But obviously this overstates the effect of the transfers. As previously discussed, the response to the availability of public transfers has been a reduction in private charity and the substitution, on the part of the poor, of transfer income for earned income. To simply eliminate the effect of transfer programs after people have, over a number of years, adjusted their behavior to them yields income estimates for the poor that are lower than the income they would have received, either from private charity or earnings, had the public transfers never been available. Studies, such as the one by Reynolds and Smolensky, which look at the income distribution, as it actually is, over time and find that it has not changed appreciably in response to large increases in government transfer programs, speak more accurately to the question of how effective these programs have been than do studies which see the income of the poor increasing a dollar for every transfer dollar received.

In discussing the income distribution we have been talking about the effect of government transfer programs on the *relative* income of the poor, as opposed to the absolute income. If, as the evidence seems to indicate, massive transfer expenditures have not increased the relative income of the poor, then it is surely the case that these expenditures have decreased the absolute income of the poor. The taxes necessary to finance transfer payments reduce the private returns to labor, to savings, and to investment, and to wealth producing activity in general. Therefore these taxes create wealth-reducing distortions in the economy. Similarly, the payment of transfers typically reduces the incentive of recipients to engage in productive activities. A large number of empirical studies have been made in the attempt to estimate the size of the negative productivity effects of taxes and transfers. Not surprisingly these estimates vary, with some studies finding large negative effects and others finding much smaller effects.<sup>31</sup> But no one has seriously argued that the effect of

<sup>30</sup>These studies are discussed in Danziger et al., pp. 1006–15.

<sup>31</sup>Many of these studies are discussed in Danziger et al.

taxes and transfers on economic productivity is neutral or positive. And even if the huge increase in transfer programs over recent decades, and the huge increase in taxes necessary to finance them, have had only a slightly negative effect on national income, these programs have still made the poor absolutely worse off if they have left the distribution of national income unchanged. If the negative impact of taxes and transfers on productivity is as large as many believe to be the case, then the poor could be left absolutely worse off even if their relative income has been increased by government transfer programs.

None of this is to deny that transfer programs can, and indeed do, benefit particular groups, including the poor, in the short-run. But these short-run benefits come at the expense of long-run reductions in the general economic welfare that harm the poor as well as the nonpoor. But it is the short-run consequences of transfer programs that dominate myopic political considerations, not the long-run consequences. Furthermore, the eroding effectiveness of government transfer programs not only fails to discourage politicians from embracing these programs but has the perverse effect of actually increasing the political support they receive.

### The Political Success of Economic Failure

In order to understand the political success of economic failure in the case of transfer programs, it is useful to consider the argument most commonly used by those who believe these programs have been successful in helping the poor. This argument relies on statistics which indicate that if the anti-poverty programs were eliminated the percentage of the population falling below the official poverty line would increase dramatically. For example, figures for 1982, published by the Congressional Research Service (CRS), indicate that in the absence of government support programs the poverty rate would have gone from 8.8 percent to 24 percent. Also according to calculations by the CRS, the elimination of government programs would result in 14 to 16 million elderly people, between 55 and 60 percent of the elderly population, living in poverty.<sup>32</sup>

Little thought is required to recognize this argument forms a dubious basis for heralding the success of government transfer programs. If these programs had never come into existence it is inconceivable that one-fourth of the entire population, or over one-half of the elderly, would be living in poverty. With the data indicating that the increase in social welfare programs have had little impact on the income

<sup>32</sup>These figures are cited by Spencer Rich in his article, "The Skeptics Are Wrong: Anti-Poverty Programs Do Work," *Washington Post*, 6 May 1984, p. F1.

distribution, the rate of relative poverty in the counterfactual world with no history of government transfers would be little different than that which is actually observed with these transfers. The argument that the elimination of transfer programs would result in high rates of poverty points to the failure of these programs, not their success. The programs are doing little to reduce the poverty rate below what it would be in the long run without them, but they are doing a lot to discourage independence and encourage dependence. This is hardly a testimony to the success of these programs. It is, however, the reason these transfer programs are so resilient politically.

Even if transfer recipients would have been better off in the absence of transfer programs, having accommodated to these programs they would experience genuine suffering in the short run if the programs were suddenly scaled back or eliminated. Welfare recipients cannot develop instantly the skills and earning potential needed to replace welfare income. From the perspective of individuals who have failed to develop productive skills, who have had children they cannot themselves support, or who have absorbed an attitude of dependency from their surroundings, the short run may extend over an extensive period of time. Certainly, we are talking about a period of time that extends well beyond the time horizon of the political process. The political pressures that would be brought to bear on any serious attempt to curtail transfer programs, whether they are targeted to the poor or otherwise, would obscure the long-run benefits that would result from such a curtailment. Once the political process starts down the transfer path it is no easy task to turn back, even after it has been determined to be the wrong path.

Instead of reversing direction and reducing transfer payments, the political process will more likely be pushing in the opposite direction. The failure of transfer programs will not be seen to be inherent in the politics of these programs. Instead, continuing poverty will be seen as justification for an expansion of existing transfer programs and/or the establishment of additional programs. This view is reinforced by political myopia. Measured poverty can be temporarily reduced by another infusion of government transfer payments, and near-term political gains are available to politicians who are able to take credit for such a reduction in poverty. Of course, over the long run the expansion in transfer programs will fail to reduce relative poverty, and will likely increase absolute poverty. But with the future consequences of political action being discounted as heavily as they are, these future failures will be largely ignored.

The further the political process travels down the path of ever larger transfer programs, the more difficult it will be to reverse course.

As more people respond to the expansion of transfer programs by becoming dependent on them, the short-run political cost of scaling these programs back becomes greater. The greater the failure of social welfare programs, as measured by the dependence they create, the more successful they will be, as measured by political viability.

## Conclusion

Not only are an increasing number of poor people in the country caught in a trap of welfare dependency, we as a society are also snared in a welfare trap. Having created a dependent subculture we cannot, indeed should not, suddenly cut these people off. To do so would be to practice an extreme form of political deception and cruelty.

But we can at least be realistic in assessing the effectiveness of government welfare programs. It is surely not very useful to continue with the pretense that these programs have been successful when, in fact, they have been failures. At the very minimum, we should recognize the folly of attempting to overcome the failures of existing programs by further expansions in these programs.

Yet if we continue to trust in politics as usual, it is almost certain that transfer programs will continue to grow and proliferate. Electing the "right" politicians, urging "sensible" reforms, or swings in the public attitude may temporarily slow this growth on occasion, but ever present political incentives will always be pushing toward expansion. And the only natural barrier to this expansion is economic stagnation and decay.

The best, possibly the only, hope for halting the destructive excesses of ever increasing transfer programs is through a collective realization that we all suffer, rich and poor alike, when the government is free to hand out benefits to every group which is prepared to organize politically around some narrow interest. Overriding the myopic pressures of ordinary politics with some type of constitutional cap on the percentage of our national income that government can spend would be a beneficial result of this realization. That constitutional amendments of this type are being discussed and considered seriously today is an encouraging sign.

Of course, many will argue that any arbitrary constraint on government will hurt the poor. But this is simply not true. To recommend limiting government expenditures is not to lack compassion and concern for the poor. Quite the contrary. Once one faces up to how

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the political process actually works, as opposed to how we might ideally wish it worked, it is realized that both compassion and common sense will be served by constraining the size and scope of government.