

## CHAPTER 13

# ENDING POVERTY IN AMERICA

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Poverty in the midst of plenty is an indisputable fact of American life. Nearly everyone feels that in a country as rich as the United States, this poses a moral challenge, particularly in the case of children living in poverty. Americans may endorse a strongly individualistic ethic in which people should be responsible for their own wellbeing and many may feel that redistribution from rich poor is somehow a violation of the right of people to do what they like with their own money. Yet it still seems unjust even to many ardent individualists that children suffer because of the poverty of their parents since clearly children are themselves not responsible for their plight, and so most people believe that something should be done.

Something should be done, but what? Before the 1960s the most significant program directly designed to reduce poverty in the United States was old age pensions provided through social security. Social security was an extraordinarily successful program. It began very modestly in the 1930s as one of the reforms of the New Deal, and by the end of the 20<sup>th</sup> century it had almost eliminated acute poverty among the elderly, particularly after medical care for the elderly was added in the 1960s. There were also some programs directed towards children, but these were badly funded and by any reasonable standard, grossly inadequate.

As part of the “Great Society” agenda of the 1960s there was a major effort at tackling the problem of poverty. Lyndon Johnson declared a “war on poverty” and launched a range of new initiatives. The most important of these was called “Aid to Families with Dependent Children”, or AFDC, a dramatic expansion of an earlier program that dated from the 1930s. This was a moderately generous program of income transfers targeted to families with children. When combined with food stamps, medical assistance, and various kinds of housing subsidies it had a significant impact on the standard of living of poor children, even if it fell far short of eliminating poverty itself. This was the program that came to be known as “welfare”.

AFDC was passed in the last period of vigorous liberal reform in the 20<sup>th</sup> century. By the 1980s when conservative politics were in the ascendancy, welfare programs like AFDC were under concentrated attack on the grounds that the perpetuated rather than relieved poverty. The argument was pretty simple: by providing poor people with a “handout”, welfare programs encouraged dependency rather than autonomy and responsibility. AFDC provided single women with incentives to have children outside of marriage in order to get welfare payments, and thus the system also undermined the family. Since there were no time limits and no work requirements, AFDC fostered a culture of passivity and irresponsibility. And on top of this, conservatives argued, welfare was riddled with fraud by “welfare queens” who drove Cadillacs and lived better than many hard-working wage earners. Liberals were also unhappy with the program. Some thought the programs were too stingy and still left children in poverty. Others felt that the specific structure of the programs had certain perverse effects called “poverty traps”: since you had to earn below a certain level of income in order to qualify for welfare programs, and would thus lose your benefits if you earned above that threshold, the programs created a

disincentive for people to incrementally improve their income from employment. Unless you could get a good paying job you were better off not working.

By the 1990s support for this kind of welfare had virtually disappeared. This led to two principle developments during the decade. First, there was a significant expansion of a second kind of income support program, the Earned Income Tax Credit (EITC), designed to help the working poor rather than people outside of the labor force. The EITC is what is called a “refundable tax credit” and is given to working families with children whose annual earnings fall below a certain level. Unlike AFDC, it is only available to people in the paid labor force and is thus not subject to the central criticisms of traditional “welfare”. Second, in 1997 AFDC was eliminated and replaced by a new program, the Temporary Assistance for Needy Families program (TANF) established by an act entitled the *Personal Responsibility and Work Opportunity Act*. Unlike the program it replaced, TANF assistance was only available for limited time periods, recipients were required to attempt to look for employment, and various provisions of the Act attempted to encourage marriage.

The act, in the words of President Clinton may have “ended welfare as we know it,” but it has not ended poverty. As was shown in figures 12.4 and 12.5, the poverty rate has hardly changed at all since the late 1960s. It is true that the number of people receiving welfare payments from the government has declined dramatically since the end of AFDC: in 1996 over 12 million people received AFDC payments, while in 2008 only about 4 million received any support from TANF. But this has not resulted in significant improvements in the economic conditions of people at the bottom of the income distribution.

The rest of this chapter will explore a variety of ideas about what could be done that would significantly address the problem of poverty and economic inequality in the United States. We will begin by briefly discussing the concept of “welfare”, and make the argument that in the United States today the main recipients of welfare are middle class and wealthy people, not the poor. We will then examine a number of proposals that would have a significant impact on poverty and inequality.

### THE PROBLEM OF “WELFARE”

In the US “welfare” has become a dirty word. But what really is welfare? Here is one way that we might define the core idea:

Welfare policies are any government subsidy to a particular group of people to provide them with certain kinds of material advantages that they would not have if things were just left to the market.

In this definition, welfare is not the same as all government programs; it is simply those government programs designed to give subsidies to people that gives them material advantages relative to what they would have had if things were left to the market.

Defined in this way there are really two main forms of welfare: *direct targeted government spending*, such as nutrition programs for poor children, public housing, income grants, tuition subsidies for university students, and government bailouts of failing corporations and large banks; and *tax subsidies*, such home mortgage deductions, tax breaks for corporations, tax deductions for charitable contributions and the earned income tax credit. Many people do not realize that tax deductions and tax credits are a form of government transfer for private purposes.

Consider the home mortgage tax deduction. If you pay \$10,000 year in interest payments on a home mortgage and are in the 35% tax bracket (i.e. your income is sufficiently high that you are paying 35% in taxes on any additional income), this means that your income taxes to the government would be reduced by \$3,500. This is exactly the same as the government transferring \$3,500 to you in order to reduce your interest payments from \$10,000 to \$6,500.

Once we understand welfare in this broad way, it is clear that most welfare spending in the United States goes to the middle class and the rich. Here are some of the main examples:

*University students in public institutions.* All college students in public institutions are recipients of massive welfare payments since the tuition they are charged generally only covers well under half of the costs of their education.<sup>1</sup> The rest comes for a variety of other sources, including things like endowments, but much of the cost of higher education is a subsidy from taxpayers. This raises significant social justice issues. After all, most taxpayers never went to college, and the average college graduate will earn considerably above the median income of all people. What this means is that less advantaged taxpayers are providing welfare payments to middle class students so that they can earn higher incomes later in life.

*Homeowners.* The home mortgage interest payment tax deduction constitutes a massive subsidy to homeowners. What is more, since the magnitude of the subsidy is both a function of the size of the mortgage (the more expensive the house, the greater the subsidy) and the income tax rate paid by the homeowner (the richer the homeowner, the higher the percentage deduction for the interest payments), this particular form of welfare payments goes up the richer you are. In 2004, 48% of the housing tax subsidy went to people in the top quintile of the household income distribution.<sup>2</sup> This is clearly a form of welfare for the affluent. What is more, this subsidy is vastly greater than public assistance for housing for the poor. The budgetary authorization<sup>3</sup> for Federal housing assistance for economically disadvantaged persons declined from \$56.4 billion (in constant 2004 dollars) in 1976 to \$29.2 billion in 2004 while the tax subsidy on mortgages to homeowners increased by 260% in the same period, from \$33.2 Billion to \$119.3 billion.<sup>4</sup>

*Farm Subsidies.* One of the most durable forms of welfare spending in the United States takes the form of agricultural subsidies. This averages more than \$30 billion per year. These subsidies include substantial payments for tobacco farmers producing a crop that harms the health of Americans. There are huge direct subsidies for cotton farmers which give them a competitive

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<sup>1</sup> The tax subsidy for higher education has declined in recent years, so tuition has increased as a proportion of education costs. In 1998, the median tuition in public four-year universities and colleges covered 35% of total costs of education; in 2006 this had increased to 45%. In community colleges median tuition covered 23% of education costs in 1998 and 29% in 2006. These figures come from Jane W. Wellman, "The Higher Education Funding Disconnect: spending more, getting less," *Change: the magazine of higher learning*, November-December 2008, Figure 2.

<sup>2</sup> The tax subsidy for homeowners includes federal tax deductions for local property tax payments and a few other deductions besides the mortgage interest deduction.

<sup>3</sup> "Budgetary authorization" refers to the amount of money that has been authorized in the Federal Budget to be spent for a particular purpose. In the case of large infrastructure projects that take many years to complete, the budget authorization will typically be considerably larger than the actual outlays in any given year.

<sup>4</sup> Cushing N Dolbeare, Irene Basloe Saraf and Sheila Crowley (2004) "Changing Priorities: The Federal Budget and Housing Assistance, 1976 – 2005," *The National Low Income Housing Coalition*, available at <http://www.nlihc.org/doc/cp04.pdf>.

advantage against cotton farmers in poor countries. There are also myriad forms of indirect subsidies, such as inexpensive water for rice farming in arid regions of California. Overall, in 2006, 62% of all farm subsidies went to the wealthiest 10% of recipients, and 80% to the top 20%.<sup>5</sup>

*Corporate welfare.* The examples of government welfare for corporations are endless. Here are some from the politically conservative Cato Institute's "Handbook for the 105<sup>th</sup> Congress"<sup>6</sup>:

- Commerce Department's Advanced Technology Program (\$200 million a year), which gives research grants to consortiums of some of the nation's largest high-tech companies. Those grants allow private companies to use taxpayer dollars to help them develop and bring to market profitable new products.
- The Export-Import Bank (\$700 million a year) uses taxpayer dollars to provide subsidized financing to foreign purchasers of U.S. goods. Its activities include making direct loans to those buyers at below-market interest rates, guaranteeing the loans of private institutions to those buyers, and providing export credit insurance to exporters and private lenders.
- The Energy Department's Energy Supply Research and Development Program (\$2.7 billion a year) aims to develop new energy technologies and improve on existing technologies. Its activities include applied research-and-development projects and demonstration ventures in partnership with private-sector firms
- Overseas Private Investment Corporation (\$70 million a year) provides direct loans, guaranteed loans, and political risk insurance to U.S. firms that invest in developing countries.

Libertarians like those associated with the Cato Institute object to all of these subsidies since they oppose any use of taxation that goes beyond the most minimal needs of public order and the protection of private property. We, on the other hand, believe that many of these forms of government welfare may be entirely justified. It is probably good public policy to facilitate home ownership, and the mortgage interest tax deduction is one way of doing this. University education is in part a public good, and tax subsidies are certainly justified. Even corporate welfare and agricultural subsidies may serve useful public purposes in some circumstances, helping to overcome market failures, to solve prisoner's dilemmas, to reduce negative externalities of various sorts, to improve the lives of people and communities. The fact that such programs made be good public policy does not, however, negate the fact they are also welfare from which the more affluent primarily benefit and that the total spent on such programs is vastly more than the transfers to the poor that fall under what is usually called "welfare". As critics of the inequalities of these subsidies have sometimes said, this is "socialism for the rich, capitalism for the poor"

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<sup>5</sup> Environmental working group's Farm Subsidy Database, <http://farm.ewg.org/sites/farm/>

<sup>6</sup> Available online at: <http://www.cato.org/pubs/handbook/handbook105.html>.

## SOLUTIONS TO POVERTY & EXCESSIVE INEQUALITY

Current discussions for reducing poverty have focused mainly on the issue of education and skill formation. As we explained in our discussion of high road capitalism, we too feel that a transformation of the institutions of skill formation is an important element of moving towards high road capitalism, and certainly any serious political project for ending poverty will include life-long education, beginning with high quality preschool and continuing through higher education, vocational education, and flexible episodic skill formation and retraining. Nevertheless, we do not feel that poverty and excessive inequality can be effectively dealt with just by education both because there will be no guarantee that the increased supply of educated labor will automatically generate sufficient numbers of appropriate, and because acquiring the skills and education for good-paying jobs will not be a sensible strategy for everyone.

Still, we believe that it is entirely feasible to *completely* eliminate poverty in America. To do so would require a significant reduction in the overall levels of inequality, and this means that the incomes of people at the top of the income distribution would have to be reduced. Poverty can be eliminated in a rich society. What is not plausible is eliminating poverty while leaving intact the power and privileges of the wealthy.

We will examine three clusters of programs and social changes that we believe would do much for eliminating poverty: The first of these involves partially decoupling the real standard of living of all people from their personal income; the second involves partially decoupling paid employment from the capitalist market; and the third, involves partially decoupling income from paid employment. We will briefly discuss the first two of these and then provide a more detailed discussion of the third.

### *Partially decoupling standards of living from earnings*

Let us define in a general way a standard of living above poverty as having adequate, nutritious food, comfortable shelter, good health care, decent clothing, opportunities for recreation and entertainment, reasonable transportation, and sufficient income to be a full participant in the social life of a community. That is admittedly vague, since words like “adequate” and “comfortable” and “reasonable” hardly are sufficiently precise to give us a specific number. Nevertheless, for our purposes this is precise enough.

How much income a person needs to live above poverty defined in this way depends to a significant extent on how many of the components of this standard of living a person needs to purchase with their income and how much is provided through other means. The clearest example is healthcare: if everyone is publicly provided good quality health insurance that includes doctor visits, hospitalization, medications, nursing care, dental care and all other necessary health care services, then they need less income in order to live above poverty. If public transportation is well designed and cheap, and if cities have well-designed bike paths, then people have less need for a car, or at least in many families only one car would be needed. If communities have good parks, community centers, public swimming pools, libraries, ice skating rinks, community concerts, and so on, then people need to spend less money for recreation. If university education, vocational training and retraining, technical training and community colleges and other forms of lifelong education are free or heavily subsidized, the people need less income to deal with the uncertainties of jobs and the labor market. If good quality publicly funded childcare is available for all, then people need less earnings to cover those costs. Taken

together all of these things constitute what some people call the “social wage.” The social wage plus labor market earnings plus income derived from wealth (savings, investments, etc.) determine a person’s standard of living. The greater the social wage, the smaller the burden there is on labor market earnings to raise a person above the poverty line. One critical social change to reduce poverty, therefore, is increasing the social wage.

*Partially decoupling paid employment from the capitalist market: Publicly created jobs*

The social wage will never be enough to constitute an adequate standard of living. People will still need money to buy things on the market. The labor market and paid employment will always be the main way most people get their income, but as we noted in chapter 12 there is little reason to believe that private capitalist firms will ever spontaneously provide sufficient jobs of the right kind. One solution is for a significant number of jobs paying reasonable wages to be created directly by public initiative. These jobs need not all involve direct employment by the state; publicly *created* jobs can be organized by community groups, nonprofit organizations, and other associations in what is sometimes called the “social economy.”<sup>7</sup> Such organizations can be very effective in providing all sorts services that meet human needs, but they often have great difficulty in both providing those services and providing a “living wage” for the service providers. Publicly funded and subsidized jobs on a large scale could help solve this problem.

*Partially decoupling income from earnings: unconditional basic income*

The final proposal departs much more fundamentally from the basic way that American capitalism is organized. The idea of expanding the social wage and publicly funded and subsidized jobs would be a significant change in the United States, but both of these would build on already familiar elements in the economic system. Decoupling the income needed to purchase the basic necessities of life from earnings acquired in labor markets would constitute a much more fundamental break with existing ways of organizing things. While we do not think there is any chance that this proposal would be adopted in the United States any time soon, nevertheless we think it is an important idea and would have a range of very positive effects if it were implemented, and so it is worth thinking about.

This proposal is called *unconditional universal basic income*, or simply “basic income” for short.<sup>8</sup> The basic idea is quite simple: All citizens are given on a monthly basis an income sufficient to live at a no frills level above the poverty line. The basic income is given to everyone – it is universal – and it is given unconditionally – there are no work requirements or other conditions. The income is given to Bill Gates along with everyone else. It is a citizen right, just as free public education is a right for children, and free health care is a right for everyone in most countries. Parents are the custodians of the basic income given to their children (which could be at a lower level than for adults). Basic income grants replace all other cash transfer programs of

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<sup>7</sup> For a discussion of the social economy and the ways in which it might provide for good and meaningful employment of relatively less skilled people, see Erik Olin Wright *Envisioning real Utopias* (London and New York: Verso, 2010), chapter 7.

<sup>8</sup> For a thorough discussion of the idea of basic income, including a range of commentaries and criticisms, see Bruce Ackerman, Anne Alstott and Philippe van Parijs, *Redesigning Distribution: basic income and stakeholder grants as cornerstones for an egalitarian capitalism*, the Real Utopias Project, volume V, edited by Erik Olin Wright (London and New York: Verso, 2005),

the welfare state -- unemployment insurance, food stamps, cash payments for poor families, social security pensions, and so on – but not the kinds of government programs embodied in the social wage (education, health care, etc.). It is paid for out of general income taxes, so of course rates of taxation have to be increased. For high earning people taxes will rise by more than the basic income, so they will be net contributors. While the basic income is sufficient to live on, most people will want some discretionary income, and there is no disincentive to work since the rate of taxation on low labor market earnings will continue to be low.

Basic income is a sharp contrast to existing income-transfer programs designed to reduce poverty, nearly all of which are *means-tested*, given only to people whose income falls below some threshold. Basic income is a universal program, given to everyone. At first glance, it might seem that means-tested programs that are targeted to the poor would provide more resources for the people who need them most. This turns out not in general to be the case. The problem with means-tested programs is that by identifying a specific, well-demarcated category of beneficiaries, means-tested programs create a sharp division between those who receive the benefits and those who do not. Universal programs build bridges across groups, creating large potential coalitions in support of funding the program and symbolically affirming the idea that the program reflects a universal right, rather than charity. Targeted programs isolate recipients, symbolically stigmatizing them as needy, dependent persons incapable of acting like responsible adult citizens. As a result of these characteristics, universal programs tend to provide more, not less funds for the poor. As it is sometimes said: programs targeted to the poor are usually poor programs.

The idea of unconditional, universal basic income runs against the grain of the political and economic views of most Americans. It seems to reward laziness and undermine individual responsibility. And besides, many people will argue, it would simply be too expensive: even a rich country like the United States could never afford to give everyone, unconditionally, an above poverty basic income. We will discuss these objections in a moment, but before we do so let us look at what might be the potential benefits of a basic income system if it were implemented and if it were affordable.

First, and most important in the context of the present discussion, basic income eliminates extreme poverty without stigma because the grant is universal. No child will live in poverty if there was an unconditional, universal basic income guaranteeing everyone an adequate standard of living.

Second, if there was a well-funded, basic income in place, it would tend to make unpleasant work more costly. In the existing labor market badly paid jobs are often also the least pleasant. A basic income would make it harder for employers to recruit workers for unpleasant, boring, physically taxing jobs. Such jobs would either become better paid, or employers would feel pressure to get rid of unpleasant work through work reorganization and technical change. Basic income, therefore, is likely to create a bias in economic change towards labor humanizing innovations.

Third, unconditional basic income can be seen as a way of supporting a wide range of non-market economic activities, as well as engaging in market-oriented activities in new ways. For example, one of the problems in the performing arts is that in order for people to be actively engaged in the arts they have to eat, and it is often extremely hard to generate a basic income through their artistic activities. Many artists, actors, musicians, writers and dancers therefore

need to work at low paying “day jobs” in order to earn just enough to be able to do their artistic work. An unconditional basic income would liberate them from this constraint. Similar problems confront people engaged in community activism of various sorts, nonprofit services, caregiving for children and the elderly, and many other activities that generate considerable social benefits. All of these would expand if the people engaged in these activities did not have to generate income to meet their basic needs through these activities. The same argument applies to the formation of worker-owned cooperatives. One way of organizing production for a market is through firms that are entirely owned by the people who work in them. Worker-owned cooperatives, however, are often very difficult to form and unstable because workers find it difficult to get the capital they need for their business in ordinary credit markets and because they need to generate income to live on right from the start. They cannot afford to start the business and wait several years before generating income. An unconditional basic income would both make it easier to get loans for the business, since the basic income would make the business more viable and thus more credit worthy, and it would give the worker-owners the necessary time to get the firm going.

Finally, basic income can be seen as guaranteeing what Philippe van Parijs, the leading theorist of basic income, has called “real freedom for all.”<sup>9</sup> Real freedom refers to the ability of people to have the real capacity to make critical choices and act on them, to put their life plans into effect. In a world without basic income, wealthy people with assets have this freedom because they can make the choice whether or not they want to work for pay or not, and the children of rich parents have this freedom because their parents can provide them with the necessary resources to make such choices. What a basic income would do is give such “real freedom” to everyone. Most crucially, whether or not to enter the labor market to work for pay would become a real choice for people. All people, not just wealthy people, would have the freedom to exit the labor market – to care for children, to be an artist, to work as a community organizer.

These consequences of a basic income are attractive to many people. But will it work? Is it actually feasible? Critics of unconditional basic income typically raise two practical objections: First, if there existed a basic income above the poverty line, then so many people will stop working for pay that not enough income will be generated to provide the necessary taxes to fund the system. The basic income would collapse because tax revenues would plummet due to the lack of labor supply. Second, basic income will be so expensive that the tax rates would have to be so high that this would generate massive disincentives to invest and to work. Again, the basic income would collapse, this time because of a lack of investment.

These are empirical questions, and it is difficult to know exactly how people will react if a basic income were in place. There have been estimates made of the total cost of a basic income, and at least in those European welfare states that already provide something close to a basic income through a patchwork of targeted and means tested programs, the increased net cost is not all that great. Remember: the basic income replaces lots of existing income support programs, and it is also much cheaper to administer than other programs because of its simplicity. Even in the United States, which at the beginning of the 21<sup>st</sup> century has the lowest aggregate rate of

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<sup>9</sup> Philippe van Parijs, *Real Freedom for All: What (if anything) can justify capitalism* (Clarendon Press, Oxford, 1995)



taxation among developed countries, the estimates of the tax increases needed to fund a basic income suggest that the tax rates would not cripple the economy.<sup>10</sup> Nevertheless, we do not know how people will react to a basic income, and it is possible that so many people would exit the labor force that it just wouldn't work. Its viability can ultimately only be tested in practice.

Even if we suppose that a basic income would work, many people will have doubts that it would be desirable. To many it will just seem wrong to give everyone money to live on regardless of their behavior or contribution to society. Paid work at least demonstrates that you are doing something useful for someone besides yourself. Basic income allows people to be lifelong couch potatoes without contributing anything. This just seems unfair to those people who do the work that generates the taxes that pays for the basic income.

These are indeed serious objections and certainly cannot be dismissed. We have two responses. The first rests on van Parijs' arguments for "real freedom for all". In the world in which we live rich people are able to do nothing without contributing anything to society, and yet are allowed to keep their wealth. Basic income merely extends this "right to be lazy" to everyone; or to say this in a more positive way: it extends the real freedom to make choices over work to everyone. The second response has a more pragmatic character. There are many values in play around inequality and poverty and around the alternative policies for dealing with these issues. All solutions to problems involve trade-offs. To be sure, the idea that some people will live off of the basic income and contribute nothing to society is distasteful. The problem is that putting a requirement for work or social contribution as a condition to receiving the basic income creates huge monitoring problems and opens the door for scams, deception, adjudications, and other perverse effects. These problems, in turn, would raise the costs of basic income. It is possible, therefore that the other good things about basic income – eliminating poverty in a rich society, especially for children; raising the price of unpleasant work and generating a bias in technical change which will reduce such work; opening up the possibilities for more nonmarket socially valuable activities; and providing a basic real freedom for all – are sufficiently compelling to outweigh the undesirable aspects of basic income. This is true for virtually all policies: it is almost never the case that a public policy perfectly embodies a salient social value and has no negative effects whatsoever. The political task, therefore, is to weigh the trade-offs rather than reject a policy simply because it involves trade-offs.

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<sup>10</sup> See, for example, the estimates by Irving Garfinkle, Chien-Chung Huang, and Wendy Naidich, "The Effects of a Basic Income Guarantee on Poverty and Income Distribution" in Allstott, et. al. *Redesigning Distribution*.