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WELFARE NEED AND WELFARE SPENDING

INTRODUCTION

How much does the government spend on welfare? How much should the government spend on welfare? The relationship between the answers to these questions--one of fact, one of judgment--should dictate the course of future welfare spending. Yet, despite intense debate on the cost of specific welfare benefits, neither the Reagan Administration nor its critics has come to grips with either of these basic questions.

Determining how much government spends on welfare should be easy, but it isn't. The public seems to believe that defense spending is increasing, welfare spending decreasing. This is wrong, although the error is understandable. The federal budget clearly identifies defense outlays: $187.5 billion in FY 1982, $221.1 billion in FY 1983. But there are no comparable figures for welfare, not even for federal spending, much less for spending at state and local levels. The budget contains no definition of welfare and there is no budget category with that name. Instead, welfare costs are spread throughout the budget, in hundreds of line items funding specific kinds of benefits.

The welfare system--government's attempt to alleviate poverty through income redistribution--is made up of 49 major national programs, ranging from those which everyone calls welfare, such as Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and food stamps; through those whose service-oriented names disguise their welfare essence, such as Medicaid, the Comprehensive Employment and Training Act (CETA), child nutrition, and homeowner assistance; to those social insurance programs which none dare call welfare even though they are, such as social security and unemployment compensation. Welfare expenditures for FY 1982 totaled $403.5 billion, more than twice the level of defense spending. And although the growth rate of welfare spending has been reduced by the Reagan Administration, welfare is not shrinking: total expenditures for FY 1983 are anticipated to be $413.2 billion.

Knowing how much government spends on welfare, what can we infer about how much government should spend? From the taxpayers' standpoint the obvious answer is: as much as is needed, and no more. This is not a rhetorical answer: need can also be determined, but not by treating current spending as the true measure of that need. Each of the hundreds of welfare benefits has been designed to meet some particular "need" for cash, subsidies or services.

Not only is the relationship of many of these "needs" to a condition of poverty questionable, but typically each benefit is funded as though it, and it alone, would have to meet completely that particular need. In fact, there may be several duplicative or complementary benefits from other programs available to the same group of recipients. Some recipients benefit enormously, some hardly at all, from this compounding of benefits, but the budgetary effect has been to inflate both individual program and total spending to levels that far exceed demonstrable need. The Reagan Administration has begun to pare back duplicative benefits in a few programs, but so far the surface has barely been scratched.

A more accurate assessment of the dollar value of total welfare need can be obtained from a calculation of what it would take to lift the incomes of everyone the government defines as poor up to the federally defined poverty threshold. The threshold may or may not provide the best measure of who is or is not actually poor, but it is the official measure, and therefore the best available for comparing official need and official response.

Based on the latest available census data, $101.8 billion, properly distributed, would have raised to the poverty threshold in 1982 the incomes of all Americans whose pre-welfare incomes were below the threshold. Allowing 1.5 percent--the Social Security Administration's rate--for administrative overhead, it would have been possible officially to eliminate poverty in the United States at a cost of $103.3 billion, 25.6 percent of what the government actually spend trying, but failing, to meet that goal.

Table 1 compares need based on the federal poverty threshold with actual welfare expenditures for the years 1979 through 1983.

BACKGROUND

The welfare system is 50 years old, but most of its growth has occurred in the past two decades. Total welfare expenditures for FY 1983 are anticipated to be $413.2 billion, up from $99.7 billion in FY 1971: an average annual increase of 12.3 percent.

TABLE 1

THE DIFFERENCE BETWEEN WELFARE SPENDING AND WELFARE NEED

	Fiscal Year				
	1979	1980	1981	1982	1983
WELFARE EXPENDITURES (Federal, State and Local, $ in 000's)	278,386,195	324,941,211	369,244,788	403,519,754	413,244,030
NEED BASED ON POVERTY THRESHOLD ($ in 000's)	70,189,740	85,953,062	95,235,993	103,331,052	109,871,908
PERCENTAGE OF WELFARE EXPENDITURES REQUIRED TO MEET POVERTY THRESHOLD-BASED WELFARE NEED	25.2%	26.5%	25.8%	25.6%	26.6%

The average annual Consumer Price Index increase for the same period (last quarter of FY 1982 and all of FY 1983 estimated) was 8.6 percent. Thus in the past 12 years, average annual welfare expenditure growth has been 43 percent greater than average annual inflation growth. Under the Reagan Administration the average annual welfare expenditure growth rate has slowed, but is still growing at 5.8 percent, with total expenditures rising from $369.2 billion in FY 1981 to an anticipated $413.2 billion in FY 1983.

The welfare system sustains a nationwide welfare industry of more than 5 million public and private workers to service 50 to 60 million recipients. The industry has demonstrated that its goal is not to eliminate poverty, but to expand welfare through increased spending, more benefits and programs, centralization of control in the federal government, and expanded employment in welfare-related services.

With welfare benefits and programs diffused throughout the budget, welfare industry lobbyists and their supporters in Congress have successfully obfuscated the magnitude both of total welfare spending and of overspending by limiting spending discussions to individual programs and insisting that current spending levels be used as a point of reference in discussing future spending. By tacitly accepting these growth-inducing ground rules, the Reagan Administration has put itself at a disadvantage in trying to control welfare spending.

DETERMINATION OF WELFARE EXPENDITURES

The primary source for the determination of welfare expenditures in Table 1 was the Budget and Budget Appendix of the United States Government for the fiscal years 1972 through 1983, prepared by the Office of Management and Budget and the Executive Office of the President. Other sources consulted were the Catalog of Domestic Assistance Programs prepared by the Office of Management and Budget, and the United States Statistical Abstract compiled by the United States Department of Commerce, Bureau of the Census. In addition, numerous interviews were conducted in the Office of Management and Budget and the departments of Health and Human Services, Education, and Agriculture.

As a general rule, "Total Program Costs Funded" or "Total Obligations" budget line items were used to calculate welfare expenditures. The objective was to determine how much money was spent or obligated for each welfare program for a given fiscal year. Therefore, amounts borrowed from future fiscal year appropriations, or obligated but carried over, were included in the fiscal year that the borrowing or obligating took place. On the other hand, unobligated appropriations carried over to the next fiscal year and obligated in that fiscal year were included in that fiscal year's expenditures. Administrative costs, where identifiable, were included, as were state and local government expenditures, but not fees, gifts, and required individual contributions for services.

Although all but one of the major welfare programs stem from federal law, state and local governments share in the costs of about half of the programs. In FY 1982, out of projected welfare expenditures of $403.5 billion, state and local governments spent $63.5 billion, or 15.7 percent of the total.

CALCULATING NEED BASED IN THE POVERTY THRESHOLD

The poverty threshold is the official measure of need in the United States. It was developed by the Social Security Administration in 1964, and was based on a 1955 Department of Agriculture food consumption survey showing that families of three or more spend about one-third of their income for food. The poverty threshold was initially set at three times the cost of the Department of Agriculture's 1961 economy food plan, and has been updated each year by the Bureay of the Census to reflect changes in the Consumer Price Index.

Calculations of the total dollar value of need in Table 1 were derived from Bureau of the Census data on families with before-welfare incomes below the poverty threshold. The number of families of each family size, including unrelated individuals, was multiplied by the average before-welfare income for that family size; the products were summed; and the sum was subtracted from the summed products of the number of families of each size times the poverty threshold for that family size. The difference is the total amount of money which, if properly distributed, would raise to the poverty threshold the incomes of everyone with before-welfare incomes below the poverty threshold. One and one-half percent was added for administrative overhead, based on the current overhead rate of the Social Security Administration, the world's largest distributor of transfer payments.

The latest census data on family incomes available for these calculations were from 1980: therefore, FY 1979 and FY 1980 data are actuals; fiscal years 1981, 1982, and 1983 are inflated by the Consumer Price Index (fourth quarter of FY 1982 and all of FY 1983 estimated). Revised poverty threshold levels were released in the summer of 1982, and have been used, where applicable, in our calculations.

CONCLUSION

The data in Table 1 are drawn from a comprehensive analysis of the welfare system, its programs, and its costs from 1971 through 1983. The data show that a federally controlled and administered welfare system has not and cannot satisfactorily serve either the interests of the taxpayers or the needs of the poor. What is needed is a total redesign of public assistance policy and administrative structure.

A major criterion of this redesign would be the removal of incentives inherent in a federal system to create what Table 1 portrays: an overblown and ineffective response to a serious but solvable problem. When the U.S. is able to focus public assistance on the needs of the poor rather than on the expansionary interests of a government-controlled industry, Americans will save enormous sums of money, eliminate legions of bureaucrats, and better serve the poor.

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This essay is based on a study in progress, Farewell To Welfare, by Charles Hobbs and Jonathon Hobbs, to be published by The Heritage Foundation.