WELFARE REFORM IN UNITED STATES of AMERICA
We Are Different

■ 1, The argument regarded in welfare system is Equity vs. Efficiency.

■ 2, Market failure argument exists before and after government intervention.
Our Framework

1. The justice of government welfare system
2. The introduction of American welfare system
3. Problems involving in this system
4. Issues associated with this system
5. Our suggestions
Why should the government intervene?

- **To Promote Equity**

- The government has the responsibility to ensure that all its citizens live above the poverty line and that everyone has access to similar programs. It does this by transferring money from the rich to the poor.
But the question is why is it the responsibility of the government and not the market?

There are several arguments to answer this question:
The Positive Externality Argument

- If I as an individual help the poor, the poor become better off, but society as a whole becomes more productive and the standard of living is raised.

- Trying to create a program that generates a positive externality through private markets never works because everyone will want someone else to pay for the benefits consumed by all. Therefore, the government must intervene.
The Risk Sharing Argument

- Public assistance programs provide individuals with insurance against economic risks.

  *It is these types of risks that the private market will not insure against because of the Adverse Selection problem.*
•The human dignity argument

Public assistance programs to the poor fulfil a primary role in society, which is to respect human life and avoid wasted human life.
The capacity to respond argument

• The moral responsibility of a society is much greater when there is economic and technological capacity to assist the poor.

• In the U.S., helping the poor is not without cost, but it certainly won’t create financial ruin.
The administrative capacity argument

• The government may have a better administrative and programmatic capacity to carry out redistribution than the private sector.

• The government can collect information about need and implement programs more easily than the private sector. In this regard, the government has a comparative advantage.
The market failure argument

- Given the U.S. is a market oriented economy, it has a responsibility to those who can not survive in the market on their own.

- There are market failures that arise when a person wants to sell his/her labor for wages and can’t find anyone to buy them.
Economic Rights Argument

• Individuals have economic rights just as they do citizenship rights. These include: access to education, food, medical care and housing.

• Government should intervene if these basic needs are not being met.
U. S. Welfare Program

CASH ASSISTANCE PROGRAMS
- Aid to Families with Dependent Children (AFDC)
- Supplemental Security Income (SSI)

IN-KIND ASSISTANCE PROGRAMS
- Housing and Food Assistance
- Medicaid
- Job Training and Placement
- Head Start Preschool Enrichment
- The Earned Income Tax Credit (EITC)
Eligibility Standards

CATEGORICAL AID PROGRAMS

PARTICULAR GROUPS OF PEOPLE

MEANS TESTED PROGRAM

INCOME
## Major Public Assistance Programs in the United States (1993)

<table>
<thead>
<tr>
<th>Program</th>
<th>Year</th>
<th>Participants (thousand)</th>
<th>Total Cost (mil $)</th>
<th>Cost/Participants ($)</th>
<th>%Cost paid by Fed Govt</th>
<th>% Participants by Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFDC</td>
<td>1993</td>
<td>14,144</td>
<td>25,242</td>
<td>1,785</td>
<td>48.6</td>
<td>66.2</td>
</tr>
<tr>
<td>SSI</td>
<td>1993</td>
<td>6,011</td>
<td>25,640</td>
<td>4,266</td>
<td>97.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>1993</td>
<td>28,424</td>
<td>26,304</td>
<td>925</td>
<td>94.3</td>
<td>52.0</td>
</tr>
<tr>
<td>Medicaid</td>
<td>1992</td>
<td>30,926</td>
<td>118,166</td>
<td>3,821</td>
<td>56.9</td>
<td>52.0</td>
</tr>
<tr>
<td>Housing (all programs)</td>
<td>1993</td>
<td>5,625</td>
<td>20,487</td>
<td>3,642</td>
<td>100.0</td>
<td>45.0</td>
</tr>
<tr>
<td>JIPA, title HA</td>
<td>1992</td>
<td>955</td>
<td>1,741</td>
<td>1,823</td>
<td>100.0</td>
<td>45.0</td>
</tr>
<tr>
<td>EITC</td>
<td>1992</td>
<td>14,097</td>
<td>13,028</td>
<td>924</td>
<td>100.0</td>
<td>na</td>
</tr>
<tr>
<td>Head Start</td>
<td>1993</td>
<td>714</td>
<td>2,776</td>
<td>3,888</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: % Child, % or Youth, % Adult, % Elderly.
Cash Assistance Programs

- **AFDC** (Aid to Families with Dependent Children)
  - Available to Single Mothers with Children
  - Shared Between the Federal Govn’t and State

- **SSI** (Supplemental Security Income)
  - Enacted in 1972
  - Available to Low-Income Elderly and Disable Individuals
  - A Federally Designed Program
In-kind Assistance Programs

- Food Stamps
  - Available to All Poor People
  - Cost Paid by the Federal Government

- Medicaid
  - Run by the State, Cost Shared with the Federal Government
  - Provides Assistance to Elderly or Disabled Persons
  - A Federally Designed Program

- The Earned Income Tax Credit (EITC)
  - Began in 1975
  - Subsidies to Low-Wage Workers Through the Tax System
3. PROBLEMS INVOLVING IN THIS SYSTEM

- Our analysis is divided into 3 points:
  - 3-1. IN-KIND ALLOCATION versus CASH BENEFITS
  - 3-2. CATEGORICAL versus BROAD-BASED AID
  - 3-3. MARKET FAILURES
3-1. IN-KIND ALLOCATIONS vs. CASH BENEFITS

(i)- Specificity of the In-kind system:

- *Restriction in the consumption behavior (Budget constraint)

- IN-KIND ALLOCATIONS CANNOT BE USED TO BUY OTHER GOODS
CONSUMPTION OF OTHER GOODS

Budget constraint before in-kind allocation

Budget constraint after in-kind allocation of $100

IN-KIND ALLOCATIONS
(ii)- Inefficiency of in-kind allocations:

- *Example: FOOD-STAMPS*

![Graph showing budget constraints before and after food stamps and subsidy]
• A CASH SUBSIDY OF $75 (E’) CAN GIVE THE SAME LEVEL OF UTILITY AS $100 OF FOOD STAMPS (E)
• A CASH SUBSIDY OF $100 (E’’) MAKE PEOPLE BETTER OF THAN $100 FOOD STAMPS (Substitution effect)
(iii)- COMPARISON OF IN-KIND vs. CASH

| In-Kind allocations                                      | Cash Benefits                                                                 |
|----------------------------------------------------------|Adamant
| -HIGH ADMINISTRATIVE COST                                 | -LOW ADMINISTRATIVE COST                                                      |
| (each type of allocation must have its specific organization) | (Only one organization can implement the whole program)                       |
| -DISTORTION IN CONSUMPTION BEHAVIOR                       | -RATIONAL CONSUMPTION                                                         |
| (Specificity of in-kind allocation ➔ Fig. A )              | (Consumers can use both substitution and income effects ➔ Fig. B )             |
• CONCLUSION: CASH BENEFITS IS MORE EFFICIENT THAN IN-KIND ALLOCATIONS
3-2. Inefficiency of US Welfare System

Categorical vs. Broad-Based Aid
1) Difference b/w Categorical and Broad-Based Aid
2) Categorical Welfare System
   Higher Administration Cost
   Negative Behavior
3) Broad-Based Aid
   Simple Administration
   Tax rate ↑ on middle-income individuals
ISSUES ABOUT WELFARE SYSTEM

- 1, Dishonest behavior vs. Equity
- 2, Decentralization vs. Federalization
- 3, Enforce single parent (unmarried teenager) to work vs. Who takes care the children in this kind of families?
4. Education and training with high administrative cost vs. low cost program with less education and training

5. The effects of tax incentive
Recommendation

• 1) Scrap plan

• 2) Not viable since political, social and ethical issues at stake as well as an understanding of the dynamics of poverty
Dynamic of Poverty
Poverty Trends In The US 1984-1994
Poverty Variables

DYNAMICS OF POVERTY

- POVESCR: 57%
- POVENT: 22%
- POVSTAY: 21%
3) Issue of wealth ownership  Individuals need to become wealth owners – show correlation between wealth owners and poverty.

<table>
<thead>
<tr>
<th>INCOME QUINTILE</th>
<th>NO OF MONTHS CONSUMPTION CAN BE SUSTAINED</th>
<th>NO OF MONTHS CONSUMPTION CAN BE SUSTAINED AT 125% OF POVERTY STANDARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Quintile</td>
<td>19</td>
<td>61.3</td>
</tr>
<tr>
<td>Fourth Quintile</td>
<td>3.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Middle Quintile</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Second Quintile</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Bottom Quintile</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

(Wolff 1998)
4) Insuring macroeconomic growth
There has been a strong correlation between economic growth and poverty alleviation.

5) Lessons from Non-Government Organization.