

ECONOMICS USA  
21<sup>st</sup> Century Edition

PROGRAM #11

REDUCING POVERTY: WHAT HAVE WE DONE?

AIRSCRIPT

ECONOMICS U\$A: 21<sup>st</sup> CENTURY EDITION

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Annenberg/CPB Project (Logo and Music)

NARRATOR: FUNDING FOR THIS PROGRAM IS PROVIDED BY ANNENBERG LEARNER

(Music plays)

DAVID SCHOUMACHER: The Depression. Many elderly Americans were too old to work...Pensions non-existent, savings gone. What was Franklin Delano Roosevelt's answer to the needs of older Americans? Welfare Reform. After sixty years of guaranteeing benefits to welfare recipients, the Federal Government wants them to go to work. Has the new policy succeeded? By 2010, despite the expenditure of numerous government programs, the gap between the richest and poorest Americans has widened. What more can we do to break the back of poverty?

DAVID SCHOUMACHER: We're the richest, most prosperous nation on Earth. Yet, in the 21<sup>st</sup> Century, there still remains great disparities in wealth... so much poverty and so much disagreement about what to do about it. "Reducing Poverty: What Have We Done?" With the help of economic analysts Richard Gill and Nariman Behravesch we'll investigate that question on this 21<sup>st</sup> Century edition of Economics U\$A. I'm David Schoumacher.

(Music plays – Opening Credits)

PART I

DAVID SCHOUMACHER: There have always been people left out of the American dream...the young, the old, the ill, the untrained...and those who've just lost out in a competitive economy which has losers as well as winners. Today we take it for granted that the government has a role to play in reducing poverty and we argue only about how and how much. But before food stamps and public housing...before government aid to the elderly...what happened when the elderly faced the Great Depression?

FRANKLIN D. ROOSEVELT: “I see one-third of a nation ill-housed, ill-clad, ill-nourished...”

DAVID SCHOUMACHER: The Great Depression cut too wide and too deep for business-as-usual. The Depression demanded new answers to poverty. No group suffered more than the elderly. Savings accounts were wiped out, pensions were rare, family resources--gone.

DAVID SCHOUMACHER: The needs of the elderly have always carried a special urgency. Not everyone will become unemployed or disabled, but we will all get old. How could Depression America protect its citizens from the hazards of old age? Americans looked to their President...

FRANKLIN D. ROOSEVELT: “We are determined to make every American citizen the subject of his country’s interest and concern. The test of our progress is not whether we add more to the abundance of those who have much...It is whether we provide enough for those who have too little.”

DAVID SCHOUMACHER: FDR’s first hundred days were a whirlwind of industrial reorganization and job creation...the NRA, the WPA, the PWA...but for those too old to swing a pick or a handle a shovel, the Depression continued full force. Extreme trouble made people ready to listen to extreme solutions.

DAVID SCHOUMACHER: Detroit priest Charles Coughlin preached a gospel of Anti-Semitism and easy money to millions of radio listeners.

HUEY LONG: “The masses of America... “

DAVID SCHOUMACHER: A Louisiana Governor, later Senator Huey Long, wanted to soak the rich and give pensions to the elderly. And to every family, a house, a car, a radio and \$5,000 a year.

HUEY LONG:” Into economic slavery...

FRANCIS TOWNSEND: “...to an age evolving Pension plan...”

DAVID SCHOUMACHER: A California doctor, Francis Townsend, wanted the government to give everyone over 60 two hundred dollars a month.

FRANCIS TOWNSEND: “..to retire.”

DAVID SCHOUMACHER: The Townsend Plan, like the Long and Coughlin schemes, was wildly impractical... Astronomical taxes would have been needed...taxes a depression-burdened America could never have paid. But FDR’s plan, Social Security, would pay for itself. Employers and employees would contribute to a pension fund. Social Security would be a national insurance policy for future generations of senior citizens, payable upon retirement. Even FDR’s relatively modest Social Security...monthly benefits started at just \$10...met powerful opposition. Senator Huey Long thought the benefits were too low. He didn’t think the employees should have to pay anything in. Republican Presidential candidate, Alf Landon, blasted Social Security as the biggest tax increase in history. FDR put all his prestige and popularity behind the Social Security bill...

FRANKLIN D. ROOSEVELT: “Seems to me that if the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this security bill, Social Security Act, the session would be regarded as historic for all time.”

DAVID SCHOUMACHER: FDR was riding a crest of desperation and hope. Social Security rolled through Congress and on to the White House.

FRANKLIN D. ROOSEVELT: “This Social Security measure gives at least some protection to 50 millions of our citizens...”

DAVID SCHOUMACHER: Why an insurance plan? Why not a tax and paid benefits to the needy? Wilbur Cohen, Secretary of Health, Education and Welfare in the 60’s, was one of the team of social economists that helped FDR shape Social Security...

COHEN: “I think he ...I think Roosevelt clearly saw 50 years in the future that there might be a President sometime who’d want to cut-back on the safety net, and one of the ways to prevent that in Social Security was to make the individual and the employer pay for it.”

DAVID SCHOUMACHER: “Did you ever hear him express it?”

COHEN: “He said it in these kind of words: ‘No damned politician will ever be able to take it away from them.’”

DAVID SCHOUMACHER: Social Security has played a crucial part guaranteeing a secure and dignified retirement for millions of older Americans. Poverty still exists among the elderly, but being old is no longer synonymous with being poor. We asked economic analyst Richard Gill to explain the economic thinking behind Social Security.

(MUSIC PLAYS – COMMENT AND ANALYSIS) Economics U\$A LOGO

RICHARD GILL: Our Social Security program is a bit like God, country and Yale. You have to be for all of them (well, perhaps not Yale), but you have the feeling that they all work in rather mysterious ways. The reason we’re for Social Security is that it has, in fact, achieved its central purpose: providing for the needs of the elderly. Poverty among our senior citizens, a deep concern in the 1930’s, has been substantially reduced in the present day. The reason Social Security seems mysterious is really twofold. First, the system doesn’t work at all in the way we were taught to believe it would. The idea seemed to be that an average citizen...let’s call him Peter...would deposit his and his employer’s payroll taxes in a fund which would keep growing over the years; at retirement, this same Peter would use these accumulated funds to live on. In fact, the way it works is that young Peter pays into a fund which is immediately used to pay the already elderly Paul. The notion of an accumulating trust is largely a myth. The program is, in fact, a classic case of what economists call a “transfer program.” The younger generation is transferring income to the older generation in return for a “promise” that the next group of young people will treat them in the same way. The second mysterious thing...at least the founders of the program would have found it mysterious...is how the Social Security system could have got-

ten so huge. Social Security outlays, now including Medicare, totaled \$236 billion in 1984, a threefold increase in just ten years. And this growth will seem like peanuts when, a couple of decades down the road, the baby-boom generation begins to retire. We get better medical care now: we live much longer; we are actually retiring earlier than we used to; and, before too long, there will be many, many more of us to retire. To generalize: Social Security is a successful system. It's a much bigger system than was ever foreseen. And it's a different system from what it appears to be. It's a transfer program, and, like all transfer programs, as we shall see, it involves certain problems.

## PART II

DAVID SCHOUMACHER: The welfare reform act of 1996 was the largest federal change in welfare policy in decades. What the personal responsibility and Work Opportunity Reconciliation Act basically did was mandate welfare recipients to go to work.

PRESIDENT CLINTON: "Today we are ending welfare as we know it, but I hope this day will be remembered not for what it ended, but for what it began."

DAVID SCHOUMACHER: But how did welfare really begin? Before there was a government welfare system, poor people had to fend for themselves or rely on charitable organizations.

DAVID SCHOUMACHER: In the 1930's, President Franklin Roosevelt, as part of his New Deal agenda, established a federal welfare system designed to meet the financial needs of the poor. And for many years welfare programs basically worked. In the 60s the welfare system was showing signs of strain.

Welfare recipients and taxpayers faced an expensive and confusing maze of programs. Welfare agencies became large and costly bureaucracies. Welfare issues split the country. Groups like the National Welfare Rights Organization worked to expand benefits. Critics called on politicians to hold down welfare costs, and get tough with welfare cheaters. It seemed as though our

welfare dollar was being eaten up supporting a complicated tangle of welfare bureaucracies. How could we cut through the snarl to help the needy?

ALAN WEIL: “The people who hated the old welfare system the most were the people on welfare. This is a system that barely gave them enough to live on but it felt to them like a trap. If they went to work and earned a dollar the state would take away most of the dollar in benefits; there was no incentive to work. So, in the past the welfare system failed those who couldn't get over the hurdle of moving into the workplace.”

WADE HORN: “This trapped millions of children and families in an intergenerational cycle of welfare dependency and poverty. What the 1996 law said was, ‘we are going to exchange this lifetime entitlement to cash for one that says we will provide temporary assistance which is oriented towards moving you into work because of the recognition that the only way to escape welfare dependency and poverty is through work and so that was really revolutionary.’ ”

DAVID SCHOUMACHER: Health and Human Services Secretary Tommy Thompson started the Revolution in the late 1980's when he was Governor of Wisconsin.

TOMMY THOMPSON: “From now on the only check someone in Wisconsin is entitled to is the one they earn through hard work.”

DAVID SCHOUMACHER: Wisconsin became the model for the 1996 reforms. Welfare recipients could only receive a check for a limited time and new incentives like child care were made available for mothers who went into the workforce.

WADE HORN: “What he was able to demonstrate is that if you emphasize work, and you provide families with the necessary work support so they can go to work, you can dramatically reduce the case loads, you can dramatically increase earnings on the part of the families who are previously on welfare, and you can dramatically improve the well-being of children.”

WENDELL PRIMUS: “I think this intervention called welfare reform worked for some families, but the very same intervention didn't work for other families. For some families, they may have needed a little more motivation and maybe they didn't have as many employment barriers. For other families, where the mother is depressed, where she only had a ninth grade education, where her reading and other skills, employment skills, weren't nearly as great, those mothers actually, I think, are worse off as a result of this bill.”

WADE HORN: “We have seen caseloads nationally decline by nearly 60%. We have seen child poverty rates plummet. African-American child poverty is now at its' lowest level in recorded history. We have also seen earnings on the part of single-parent households, and particularly single mothers, dramatically rise over the last five years as they've moved from welfare into work and many of them even out of poverty.”

ALAN WEIL: “The primary question that we can't answer is, will the policies that were put into place in the mid-nineties work when the economy is not booming and chugging along at unprecedented rates?”

BRIAN RIEDL: “Since the 1960's, the economy has seen five sustained economic booms and in every boom before the current welfare reforms, welfare caseloads went up, not down. There have been no correlations between the economy and welfare caseloads until the 1990's when work requirements required welfare recipients to move into the workforce and take advantage of what the economy has to offer. Clearly, without work requirements it wouldn't have mattered how the economy was doing because welfare recipients weren't participating in the economy.”

ALAN WEIL: “If you believe that the path to economic self-sufficiency is a job, and then advancing from the first job to the second job to a career, we've put more people on that path in the last few years than were on it in the old welfare system and that's a very dramatic shift and it's a real sign of success.”



WADE HORN: “The challenge that we face is to take the success of the last five years and improve upon it even more. That means helping people move not just off of welfare but out of poverty. It means focusing more on the needs of the children -- after all, they're the historic targets of the welfare system -- to support them in their emotional, psychological, social and educational development through the welfare system. So, we're not satisfied, not because we think that the reforms of 1996 haven't worked. They work terrifically well. But because we think we can do even better.”

DAVID SCHOUMACHER: The welfare debate has been going on for decades. The percentage of the population receiving benefits is relatively small as is the percentage of the national budget going to welfare. Fortunately, some progress was made in the 1990's. The system is evolving and hopefully will become a dynamic policy open to change. We asked economic analyst Nariman Behravesch for his thoughts on welfare reform .

(MUSIC PLAYS – COMMENT AND ANALYSIS) Economics U\$A LOGO

NARIMAN BEHRAVESH: The welfare reform act passed in 1996 – or welfare-to-work as it has become known – was a landmark event. After that, welfare no longer provided an alternative to working as a way of life. In the late 1990s, welfare reform was touted as spectacular success. The number of welfare recipients fell by more than half. The poverty rate of households headed by women fell by almost as much, as you can see in the graph. However, much of the reforms success in moving millions from welfare to work was due to its serendipitous coincidence with a long economic boom that drove the unemployment rate to a 30-year low.

During the same decade, the minimum wage was increased and the earned income tax credit was made more generous. These made it easier for former welfare recipients to earn a living wage. Unfortunately, the true success of welfare reform would not be tested until the economy went into recession – which it did in 2001.

Predictably, poverty rates rose again, as you can see in the graph. However, poverty rates stayed below the level they reached in the 1990-91 recession, suggesting that welfare reform could be given some of the credit for the tremendous improvement that was seen in the 1990s.

### PART III

DAVID SCHOUMACHER: When President Lyndon Baines Johnson signed the Civil Rights Act of 1964, centuries of legal discrimination were swept away. With a stroke of a pen new educational and employment opportunities opened up for African Americans and other minorities. Since then, federal, state and local agencies have spent millions of dollars trying to eradicate chronic poverty. So why does poverty continue to plague us?

RON HASKINS: “People make bad decisions. I think if we could do anything about poverty, the two most important things, would be number one to convince more people to work, and number two to convince people to stay in school...and way too many kids have babies when they are young so you are really harming two generations at one time.”

DAVID SCHOUMACHER: Are there other factors that come into play? Psychological factors that contribute to the cycle?

RON HASKINS: “A lot of these kids do not see a future. They live in poverty neighborhoods. They are constantly afflicted by crime, and they just don’t see how they’re going to get out. We did a study here based on census bureau data that showed what would happen if kids would follow three really difficult, complex rules. Here’s what they are: finish high school, get a job, get married and don’t have babies until after you are married. If you follow all three of the rules the probability of being in the middle class, defined as \$50,000 a year or above, is over 70%, and the probability of being in poverty is under 5%.”

DAVID SCHOUMACHER: Haskins points out that more than half of African American and Hispanic babies are born out of marriage. Children of a single parent family, especially a female headed family, are four to five times more likely to grow up in poverty.

DAVID SCHOUMACHER: If years of government programs have failed to make a significant dent in poverty, how could a small community center make a difference in the lives of thousands of families in Washington, DC?

PAUL MCELLIGOTT: “The mission of the center has been to eradicate chronic poverty through programs in employment, health, social services, and education.

One of the keys to being successful in our mission work is obviously to facilitate change and to have a facility that had a variety of services in one building. The center has daycare for children of people who may be in adult education or are undergoing job training.”

DAVID SCHOUMACHER: Perry services close to 2500 people a year. 900 have been placed in jobs, half of those at income levels of \$17 dollars or more an hour.

PAUL MCELLIGOTT: “Having dealt with people who are homeless, people who are ex offenders, people who are illiterate, that they have been able through their efforts, and with our help, to overcome those conditions and to obtain gainful employment.”

DAVID SCHOUMACHER: One of Perry’s proudest accomplishments is its success in getting young people to stay in school rather than dropping out and possibly ending up in jail. For ex-felons, both young and old, getting a job is difficult to impossible...but those who come to Perry get a boost. Cornell Young came to Perry after his drug and alcohol addiction landed him in prison for four years.

CORNELL YOUNG: “Perry is a community center that offers all kinds of assistance. Everything I needed to market myself was here. I had access to computers. I had the Job Readiness Training Program. I had telephones. I had job leads. It was like a one stop shop for me.”

DAVID SCHOUMACHER: Cornell Young was worried he would not get a job because he was a felon. But, within two months, he started working as an employment specialist, helping others

find work. While Perry provided the structure and tools for Cornell to land a job, internal motivation and personal responsibility were also key.

CORNELL YOUNG: “If that person is serious about changing their life, and pursuing unsubsidized employment, it can be done. I am making a substantial amount of money. A wage that is good enough to support my family, to live independently and do a number of things according to the American Dream.”

PAUL MCGELLIGOT: “It is as important, sometimes even more important, to be supportive, helpful, encouraging, giving the people the emotional confidence that they can succeed.”

DAVID SCHOUMACHER: Linda Forrest was homeless and jobless when she showed up at Perry for help

LINDA FORREST: “Perry school helped me to give me my confidence back, to allow me to walk with my head up again. They gave me my self esteem. They helped me to build myself back up because of the things they had to offer.”

DAVID SCHOUMACHER: As a result of Perry’s support, Linda got a job in food services at a local hospital. She is now optimistic about her future. She plans to go back to school to get a better job at the hospital. She is working toward a self-sufficient wage level, climbing out of poverty one step at a time. But, Haskins reminds us, no anti-poverty programs can be successful without adequate funding.

RON HASKINS: “We have two proven methods for reducing poverty, one that will shock you, give people money. We do that with social security. The result of that is that poverty among the elderly has fallen from 25% to 10%. But the second one is fascinating, and it is if we can have programs that require people to get jobs, and then support them in their jobs, we can have a huge impact on poverty.

DAVID SCHOUMACHER: The evidence suggests that intervention works. But it would take a massive infusion of public and private funding to make a significant nationwide impact. Does America have the will and the resources to meet the challenge? We asked that question of Economic Analyst Nariman Behravesch.

(MUSIC PLAYS – COMMENT AND ANALYSIS) Economics U\$A LOGO

NARIMAN BEHRAVESH: There is a big difference between the inequality of opportunities and the inequality of outcomes. Few would debate that people who are much smarter than average, or have greater talent in music, sports or business management should be paid more than average. Even fewer would debate that governments should ensure that everyone who has those talents—regardless of race, gender, social status or economic background—also has equal access to the market's rewards.

But what about people who are stuck on the bottom? Half of the poor in the United States consist of single-mother families, whose kids have a much higher than average high-school drop-out rate and who are less likely to find good work and more likely to be attracted to a life of crime. Well-funded programs that help reduce teen pregnancies, encourage kids to stay in school, make it easy for them to go on to college, and help them to get jobs can do a lot to break the cycle of poverty that risks condemning an altogether too large share of the population to a permanent underclass status.

While such programs cost a lot of money, the payoff is potentially equally large in terms of lower crime rates, smaller prison populations, a more productive workforce, and improved living standards.

DAVID SCHOUMACHER: It has been sobering, this survey of how 20<sup>th</sup> Century America has tried to alleviate poverty. Sobering because for all the good intentions, all the government programs, so much poverty and so much disagreement about what to do about it still remain. Is it time to get the government out of the way and permit free enterprise to try to end poverty? Or does the federal government have the duty and the resources to lift the poor into the mainstream?

Have we done too much, or not enough? For this 21<sup>st</sup> Century Edition of Economics U\$A, I'm David Schoumacher.

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