The institutional architecture of antipoverty policy in the United States: Looking back, looking ahead

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One of the most significant developments for antipoverty policy over the last 40 years has been retrenchment in cash assistance programs for the poorest alongside growth of policies that are *not* for the poor. As a result, the U.S. has developed a "trifurcated" system of fairly generous universal-categorical programs for those with strong labor market histories, largely invisible indirect-private assistance through tax and employment-based benefits for those who can command good wages and accumulate private assets, and means-tested welfare programs for those with the worst employment prospects, lowest wages and fewest assets. This institutional architecture has done little to offset rising income inequality or to eliminate poverty among working-age adults and their children. In the short term, it consigns the poorest to temporary welfare programs that are too limited in coverage and too stingy in benefits to lift households—even those with some earnings—out of poverty. In the longer term, because benefits and eligibility for welfare programs decline sharply with earnings, the trifurcation of assistance leaves those who manage to get a little ahead—and a little beyond the income and asset threshold for welfare assistance—with little or no assistance and no bridge to sustainable forms of assistance that benefit more advantaged individuals. The trifurcation of assistance has also been disastrous for antipoverty policy because it has focused public and political attention on targeted-welfare programs while obscuring the size and regressive distribution of indirect-private benefits, such as employment-based and federal tax-advantaged health insurance. Looking ahead, one of the crucial challenges for antipoverty policy will be the design of policies that provide a bridge from welfare-based benefits to legitimate and sustainable assistance for lower- and middle-income households.

The trifurcated system

The institutional architecture of social welfare and health policy is important for antipoverty policy for several reasons. The details of policy design—from the financing of assistance through social insurance, general tax revenues, or tax expenditures to the delivery of assistance through categorical entitlements, means-tested aid, or subsidized employment benefits—determine the generosity and inclusiveness of the assistance. Policies can be designed to reduce existing social and market stratification or they can exacerbate it by providing tiered assistance that replicates market status.[1] As Charles Lindbloom famously observed, policy designs are shaped by politics but, once adopted, policy also shapes politics by mobilizing some interests and marginalizing others.[2]

The architecture of U.S. social and health policy is often described as 'bifurcated' between employment-based social insurance programs for those with strong labor market attachments and means-tested social welfare programs for those outside the labor market. A more complete description of the U.S. should include a third system of indirect benefits through the tax system and publicly-subsidized and regulated private assistance, particularly employer-provided health insurance.

Indirect and subsidized private benefits are a particularly important component of the U.S. social policy system because, in comparison to other rich welfare states, these benefits make up an exceptionally large share of all assistance.[3] The historical lateness of the U.S. social insurance system, which was not adopted (with exceptions such as Civil War and Mothers' pensions) until the "big bang" of New Deal policymaking in the 1930s, fostered the development of a particularly robust system of private alternatives to public social insurance. As Jacob Hacker argues, these private alternatives are intimately linked to the early and subsequent development of public social and health policies. Widespread private benefit programs rarely arise in the absence of government intervention and support and, once instituted, inhibit the development of public alternatives.[4] Although employment-based benefits, particularly health insurance, are arguably "private," they are also "public" in many respects because they serve a parallel function to public programs, are subsidized by government through substantial tax deductions for both employer and employee costs, and are heavily regulated to achieve risk pooling and some measure of redistribution.

In addition to its heavy subsidization of employment-based benefits, the United States has developed an extensive system of other specialized tax exclusions, deductions, and credits designed to advance social and health goals—from encouraging private retirement savings to promoting private homeownership and subsidizing private child care costs. The forgone government revenues, or tax expenditures, that result from these tax benefits represents a major government investment. They constitute what Christopher Howard terms a "hidden welfare state" that has substantial but largely unobserved distributional consequences.[5]

Measuring the social benefit package

Unfortunately, it is difficult to measure the total size of the trifurcated U.S. system and the distribution of benefits, particularly the "hidden" benefits of employment-based and tax benefits, because administrative data and national household surveys fail to capture much of this assistance.[6] To obtain an estimate of the value and distribution of assistance across households I make use of data from the New York Social Indicator Survey, a household-level telephone survey of a random sample of New York City households conducted by researchers at Columbia University.[7] This survey has unusually detailed questions about receipt of both cash and in-kind assistance from multiple sources. I combine data from surveys conducted in 1999 and 2001 with administrative data to estimate the value of a "social benefit package" for each household. This estimate includes the reported value of direct cash assistance (e.g., through Social Security or public assistance benefits); the value of in-kind benefits such as Food Stamps and child care subsidies, imputed using government cost methods; and the value of specialized tax credits reported by survey respondents, imputed using survey data and the TAXSIM program.[8] I adjust the benefit package for family size by dividing the total by the square root of the number of adults and children in the family.[9]

As illustrated in Figure 1, the total social benefit package for New York City households is composed about equally of the three forms of assistance. Just over one-third is provided through universal-categorical programs (or categorical entitlements). The programs included in this measure are the traditional social insurance programs provided through Old Age, Survivor's and Disability Insurance for retired workers, the surviving dependents of workers, and fully disabled workers; Unemployment Insurance for covered workers; Medicare health insurance for those over age sixty-five and some disabled adults; and public pre-kindergarten programs.[10]

Approximately another one-third of assistance is provided through targeted-welfare programs that provide cash or in-kind assistance. The targeted-welfare programs in this measure include public assistance through Temporary Assistance to Needy Families (TANF); food assistance through Food Stamps and the Women, Infants and Children (WIC) program; Supplemental Security Income for disabled adults and children; health insurance through the Medicaid and state Child Health Insurance Programs (CHIP); child care subsidies for welfare recipients and the working poor; and housing assistance through public housing and Section 8 housing vouchers.

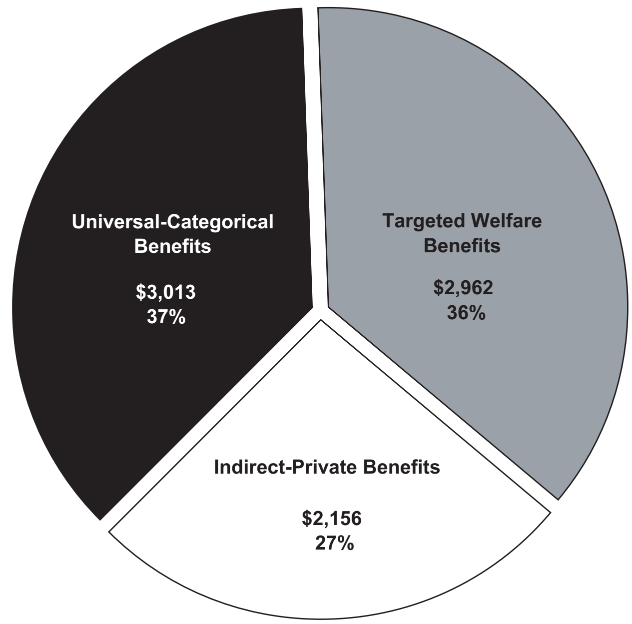

Figure 1. Average social benefit package adjusted for family size, New York City households, 1999–2001.

Source: New York City Social Indicators Survey, Waves II and III.

The final share of the benefit package, accounting for just under one-third of all assistance, is provided through indirect-private mechanisms. These benefits include specialized tax deductions and credits for individual tax payers, including the home mortgage interest deduction, the child tax credit, deductions for health insurance and medical expenses, and the Federal and New York State child care and Earned Income Tax Credits. This measure also includes tax savings to employers for employment-based health insurance. Finally, it includes the value of employer-provided health insurance, treated here as a publicly subsidized and regulated form of private assistance.

Different systems, different benefits

The three tiers of U.S. policy are institutionally separate, overseen by different parts of government, and delivered through different systems. They also differ fundamentally in the legitimacy, inclusiveness, and sustainability of the assistance they provide.

The assistance I term universal-categorical is not truly universal because these programs are categorically restricted, for example by age and disability status, and most are also limited to those with labor market ties. Although not universal, these programs are an entitlement for those who meet eligibility requirements. They are broadly inclusive in coverage, financed largely through payroll taxes, and are taken up by nearly all who are eligible. Some, such as Unemployment Insurance, provide temporary assistance while others, such as Medicare for the elderly, are designed to provide sustained, uninterrupted assistance for as long as needed.

Targeted-welfare programs are most commonly associated with antipoverty policy. They are narrowly targeted on households with the lowest incomes. Many require applicants to meet additional eligibility tests, such as hours of work, and require frequent and complex application and re-application procedures. Most are also limited by capped authorizations that provide funding for only a portion of those who are eligible. Among those who are eligible, take-up of benefits is generally low due to the difficulty, uncertainty, and stigma of participation. They are designed for target efficiency, that is, to direct benefits to the most needy, and most have high "effective tax rates" because benefits decline with increased market income. Most importantly, as the critics of public assistance have emphasized, these programs were always intended to provide only temporary assistance. They are explicitly designed to end assistance as quickly as possible through a combination of time-limited benefits, benefit schedules that reduce benefits as earnings rise, and the imposition of eligibility tests or "hassle factors" that discourage receipt.

Indirect-private benefits differ from public forms of assistance in important ways. Specialized tax benefits are an entitlement, in that they can be used by any tax filer who can document the claim or covered expenditure, but they are not broadly inclusive because those with lower incomes and tax liabilities do not benefit from itemized deductions or from nonrefundable tax credits. Federal and state Earned Income Tax Credits are the obvious exception, with refundable benefits for those low earners who can claim them. Outside of the earned income credits, most tax benefits are regressive, having a higher value for those with higher tax liabilities. Employment-based benefits are even less inclusive in their coverage. These benefits are obviously restricted to those who are able to individually or collectively negotiate for coverage from their employers. Not surprisingly, the distribution of benefits is regressive, with the most advantaged workers, who are able to negotiate the most favorable compensation packages, most likely to receive benefits.

Although indirect-private benefits are neither inclusive nor progressive, they do have the advantage of being easy to take up for those who are eligible, and participation rates in employer-based benefit programs and use of targeted tax benefits is high. These benefits have little stigma; indeed, they are generally perceived as legitimate rights rather than assistance. They are also sustainable over time. They have no time limits, repeated application requirements, or onerous behavioral requirements. And unlike targeted-welfare programs, the value of assistance is likely to increase over time along with earned income.

Stratified and unequal benefits

The trifurcation of the U.S. system is consequential for antipoverty policy because the distribution of assistance is highly stratified by market income. Figure 2 compares the value of each component of the social benefit package estimated for New York City households by market income quintiles.

Households at all points in the income distribution receive assistance through each of the three mechanisms, but the distribution is highly stratified by income. Those in the lowest income quintile receive more than one-half of their assistance through targeted-welfare programs and most of the rest through universal-categorical programs. Those in the upper quintiles receive a very different package of assistance: households with market income in the highest quintile receive two-thirds of their assistance through the indirect-private mechanisms of targeted tax benefits and publicly subsidized employment-based benefits. Households in the middle of the income distribution receive assistance from all three mechanisms in more equal proportions. But because targeted-welfare benefits decline steeply with income, and indirect-private benefits are sharply regressive, the overall distribution of assistance is decidedly "U" shaped. Although households in the lowest market income quintile receive the largest total benefit package (adjusted for family size), the value of the benefit package is smallest for the middle quintiles. The "U" shape, and upward tilt of indirect-private benefits, would be even more pronounced if we were able to capture more specialized tax benefits available to more affluent households.

Looking ahead

The United States has policies that provide generous, socially legitimate and sustainable social welfare and health assistance for many through social insurance programs, tax benefits, and tax-advantaged and subsidized private benefits. Unfortunately, this assistance is generally not available to the poor. Instead, means-tested welfare assistance provided to the poorest households is, as many have observed, "poor assistance"—meager, difficult to access, and socially stigmatizing.

Most problematically, from an institutional perspective, assistance for the poor is designed to be temporary but has no linkage to the sustainable assistance that is available to the more advantaged. TANF provides some cash assistance for those with no earnings but no bridge to Unemployment Insurance or coverage for those who do not have sufficient earnings to qualify for UI. Medicaid and CHIP provide health insurance to the poorest families, but as their earnings rise they become disqualified based on incomes before they are likely to obtain em-

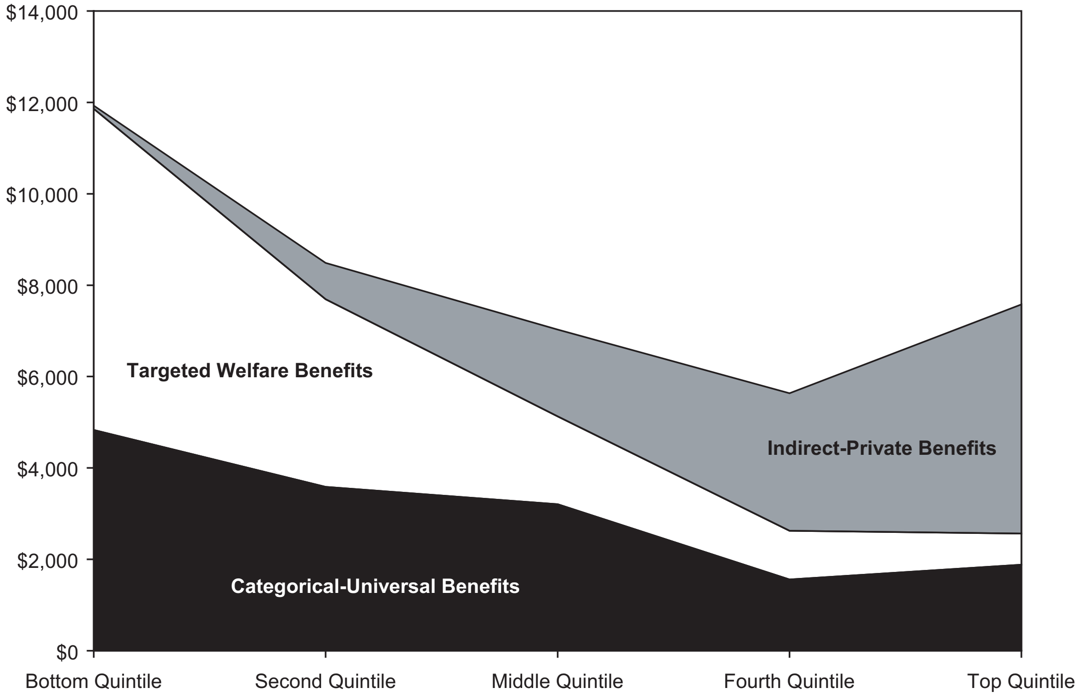

Figure 2. Average social benefit package adjusted for family size by market income, New York City households 1999–2001.

Source: New York City Social Indicators Survey, Waves II and III.

ployment that provides comparable employer-provided benefits. The Child Care Development block grant funds subsidies for the poorest families but parents' earnings typically disqualify them from assistance long before they have sufficient earnings and tax liabilities to benefit from nonrefundable child care tax credits. Low-income housing assistance provides residential security that allows some families to achieve a level of economic independence and security, but these subsidies rarely last long enough for them to secure the wages and accumulate the savings that would allow them to purchase homes and benefit from the home mortgage interest deduction.

The U.S. has policies that provide generous, socially legitimate and sustainable social welfare and health assistance for some. Unfortunately, it is not for the poor.

Looking ahead to the next 40 years of antipoverty policy, one of the most crucial challenges will be to design policies that reduce the stratification of the trifurcated U.S. system and close the gap between temporary assistance for the poor and middle earners and sustainable assistance for the affluent. We now know that economic growth, even robust growth, will not assure economic security for all or close the gap between the most- and least-advantaged. For the foreseeable future, a sizable share of U.S. workers and their dependents will not earn enough to achieve stable economic security. Given these realities, efforts to craft effective and legitimate antipoverty policy will continue to flounder as long as we provide assistance to the poorest that is stingy, temporary, and institutionally separate from legitimate and sustained assistance for the nonpoor. Our challenge is to design antipoverty policy that is not about "poverty" but about economic security and not for "the poor" but for all who contribute to the phenomenal economic growth and prosperity of the U.S. ■

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[1]G. Esping-Anderson, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990).

[2]C. M. Lindbloom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977).

[3]W. Adema and M. Ladaique, "Net Social Expenditure – 2005 Edition," *OECD Social, Employment and Migration Working Papers #29* (Paris: OECD, 2005); I. Garfinkel, L. Rainwater and T. Smeeding, "A Re-examination of Welfare States and Inequality in Rich Nations," *Journal of Policy Analysis and Management*, 25(4) (2006): 898–919.

[4]J. Hacker, *The Divided Welfare State* (Cambridge, U.K.: The Cambridge University Press, 2002).

[5]C. Howard, *The Hidden Welfare State* (Princeton, NJ: Princeton University Press, 1997).

[6]Although public expenditures for various cash and in-kind benefits are available, it is not possible to impute the value of this assistance at the household level because assistance is not provided to all who are technically eligible, and nationally representative household surveys do not collect information about receipt of many forms of cash and in-kind assistance. It is even more difficult to estimate the distribution of tax benefits because data are scarce about total government

expenditures for many specific benefits and household-level surveys do not ask about the use of specific exemptions, deductions, and credits.

[7]For more information about the New York Social Indicator Survey see http://www.columbia.edu/cu/ssw/projects/surcent/data.html. Although this survey does not provide nationally representative data, it does provide detailed information on the receipt of many forms of assistance that are not captured in other surveys.

[8]TAXSIM is the National Bureau of Economic Research's program for calculating liabilities under U.S. Federal and State income tax laws from individual data.

[9]*Family* is defined for this purpose as the survey respondent, his or her spouse or cohabiting partner, and resident children under age 18 who are related to either adult by birth, marriage, adoption, or guardianship.

[10]Public school benefits could also be included in this accounting but are not here in order to highlight the structure of social welfare and health benefits. Public pre-kindergarten programs are included because they function for many families as a form of subsidized child care, which is considered a social welfare benefit.