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Deconstructing the Third Rail: An Analysis of the Issue of Poverty in the United States Through the Lens of Social Security

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CLAREMONT MCKENNA COLLEGE

Deconstructing the Third Rail: An Analysis of the Issue of Poverty in the United States Through the Lens of Social Security

SUBMITTED TO

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AND

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BY

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for

SENIOR THESIS

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“The issue of welfare is the issue of dependency. It is different from poverty. To be poor is an objective condition; to be dependent, a subjective one as well...being poor is often combined with considerable personal qualities; being dependent rarely so. That is not to say that dependent people are not brave, resourceful, admirable but simply that their situation is enviable, and rarely admired. It is an incomplete state of life: normal in a child, abnormal in an adult. In a world where completed men and women stand on their own feet, persons who are dependent- as the buried imagery of the world denotes- hang.”
(Daniel Patrick Moynihan, 1973).

I. Introduction

Hailed as the third rail of American politics, Social Security has indeed become analogous to a rail that powers electricity alongside trains but electrocutes those who touch it. The program has become so politically charged and controversial that politicians have avoided the subject altogether to prevent destruction of their careers. Yet, such a tactic no longer proves to be an option. Social Security currently covers 165 million workers.¹ By 2033, it is predicted that the number of elderly Americans will increase from 46.6 million to over 77 million.² The program reduces the number of elderly Americans with income below the federal poverty line from more than forty percent to less than one-tenth. Thus, its success in retaining public support has rendered it an imperative to maintain its solvency. However, in the next seventy-five years, Social

¹ "Social Security Basic Facts," Social Security: Official Social Security Website, April 2, 2014, Accessed April 27, 2015, <http://www.ssa.gov/news/press/basicfact.html>.

² Ibid.

Security costs are projected to rise by about 2.5% of gross domestic product (GDP), while revenues are projected to decline.³ The insolvency of Social Security is threatening the program that has attempted to guard against old age and disability for the last eighty years. The ensuing debate over the development of the welfare state in the United States is rooted in the long-standing tension between the nation's commitment to providing for its most vulnerable and a deep-seated belief that such support can corrupt its recipients. Social Security has struck this balance and appeals to the masses with its pay-as-you-go system and universally distributed benefits.

Further complicating the topic are Americans' ambivalent attitudes toward means-tested welfare programs as well as the Supreme Court's refusal to recognize economic security as a fundamental right protected by the U.S. Constitution. With the development of the welfare state, the perception of the extent to which federal and state governments should provide for its people has evolved. Crucial to this view are major events in American history, namely the Great Depression and World War II, in the introduction of additional groups of vulnerable individuals. With the expansion of a disadvantaged class and the simultaneous setback of the Supreme Court failing to recognize the impoverished as a protected class, it remains challenging to provide for the poor. Further, the inconclusive mindset of Americans—expecting government to care for those in need but unwilling to provide adequate funds for welfare programs—the issue of how to alleviate poverty has been amplified. Society must overcome the perception that poverty is a choice and acknowledge that government support does not necessarily induce welfare dependency. Rather, if executed correctly, government support can be the means

³ Ibid.

by which individuals can escape the vicious cycle of poverty. While not all government programs need be universal to merit public support, addressing the necessity of reforming one universal program, Social Security, can plant the seed for a broader understanding of the effects such a program can have in alleviating poverty. To maintain its solvency, the United States should relax immigration laws and raise the retirement age for the current generation. Attracting high-skilled workers and having such individuals contribute higher payroll taxes, as well as reducing benefits of recipients in a lifetime through an increase in the retirement age, are two strategies to address its issue of insolvency.

II. Role of Government Responsibility

The extent to which government should provide for people's material needs, particularly those of the dispossessed, has been the source of contentious debate throughout American history. The economic and political climate at a given time has shaped the societal expectation of the role state and federal governments should have in providing for the vulnerable and disadvantaged. As a result, government has oscillated from taking a comprehensive role in providing for the poor to more limited one. At the core of the welfare debate, is an argument about the nature and causes of poverty: Do individual failings or structural factors explain why people are poor? How do we compare urban and rural poverty? How do we prioritize episodic versus long-term poverty spells? Such questions are at the root in understanding social policies.

Adopting Shaw's thermostat model of public opinion, we find that public preferences and policy are interdependent, with public opinion serving as a prerequisite bound, or parameter, within which policymakers can work.⁴ For instance, the conservative shift in public opinion during the mid-1990s coincided with stricter eligibility requirements for welfare policies. The public consensus condemning cash assistance for low-income families influenced reform. The result was the passage of the Temporary Assistance for Needy Families (TANF), which replaced Aid for Families with Dependent Children (AFDC), and mandated a set threshold of work requirements as well as time limits on aid. An effective program in terms of policy outcomes, TANF and means-tested programs are largely dependent on the "deservingness of recipients,"

⁴ Greg M. Shaw, "Changes in Public Opinion and the American Welfare State," *Political Science Quarterly* 124, no. 4 (2013): 627-53.

consisting of not just demographic characteristics and labor force participation, but also the type of benefit involved, such as cash assistance. Generally, however, universal programs merit greater public support as they are not limited to a specific subset of the population. Social Security for instance provides a foundation of retirement protection for people of all earning levels. It provides a higher annual payout for each dollar contributed compared to private retirement savings, because the risk pool is not limited to only those who expect to live a long life. Thus, contrary to public assistance programs such as AFDC, Social Security as a social insurance program is debated on the grounds of maximizing efficiency as opposed to its existence.

Different approaches to defining poverty can create varying perspectives on the most effective type of government welfare programs. Economic security is a component of welfare and can be defined as a state of well-being in which an individual can satisfy essential needs in the present and future. As a result, economic security is related to income maintenance, with greater security derived from higher income. For the purposes of this paper, I will define one's welfare as dependent on one's economic security. Although basic in its definition, it is worthy to note the importance of relativity in wealth. Income poverty is defined as when a family's income fails to meet an established nominal threshold that varies across countries. Income poverty is typically not measured with respect to an individual, but rather to a family and is adjusted for the number of people in the family. The international standard of extreme poverty is set to those living on less than one dollar a day.⁵ Two theoretical approaches are used in measuring the

⁵ " How the Census Bureau Measures Poverty," United States Census Bureau," Accessed April 17, 2015,<http://www.census.gov/hhes/www/poverty/about/overview/measure.html>.

extent of poverty: absolute and relative. Absolute poverty measures poverty in relation to the amount of income necessary to sustain crucial baseline needs such as food, clothing, and shelter. It is thus not concerned with the overall quality of life. Such a deficit led to the development of the term relative poverty, which measures poverty in relation to the economic status of other members in a society. For example, while an individual in the bottom twenty percent income bracket in the United States may have an overall higher income than an individual in the bottom twenty percent income bracket in India living on perhaps one dollar a day, both could be considered poor due to their *relative* placements in their given society.⁶ This difference is crucial as relative poverty in the United States can lead to social exclusion.

Examining the role of the government in providing welfare brings into question the metrics used to measure it. The United States Census Bureau uses a set of income thresholds that vary by family size and composition to determine poverty, an index known as the Official Poverty Measure (OPM). Thus if a given family's total income is less than the family's threshold, the family is considered to be in poverty. While poverty thresholds do not vary geographically, they do account for inflation by using the Consumer Price Index. A noteworthy flaw, however, is the fact that the official poverty definition uses money income before taxes and does not include capital gains or noncash benefits. According to the United States Census Bureau, roughly 46 million Americans were considered poor in 2010. This measure analyzed the number of Americans living

⁶ "Poverty | United Nations Educational, Scientific and Cultural Organization," Poverty | United Nations Educational, Scientific and Cultural Organization, Accessed April 17, 2015, <http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/poverty/>.

under a certain income threshold and thus in evaluating purely income levels omitted over \$800 billion in means-tested government cash assistance, food, housing, and medical benefits.⁷ The Supplemental Poverty Measure (SPM) was created in 2010 after heavy criticism that the Official Poverty Measure (OPM) does not account for the means-tested transfer programs provided by the federal government.⁸ Some argued that the OPM has overstated the extent of poverty and understated the role of government in the reduction of poverty.⁹ The former has lent itself to the notion that the federal government has played a vital role in the reduction of poverty, particularly child poverty and deep poverty. To maintain strong economic security one must have continuous real income, and not just income above the subsistence level of living. As Amartya Sen states “relative deprivation in terms of incomes can yield absolute deprivation in terms of capabilities.”¹⁰ Essentially being poor in a rich country can serve as an impediment to one’s success, or a capability handicap. Thus, an individual needs to be above both the absolute and relative poverty levels of his or her country.¹¹ An understanding of both definitions of poverty must be used in the creation of both public assistance and social insurance programs to maximize its impact on the targeted poor.

However, some policymakers do not examine poverty through both an absolute and relative lens and remain doubtful that social-welfare policies are an effective means

⁷ Robert Rector and Jennifer A. Marshall, "The Unfinished Work of Welfare Reform," The Heritage Foundation, January 22, 2013, Accessed April 18, 2015. <http://www.heritage.org/research/reports/2013/01/the-unfinished-work-of-welfare-reform>.

⁸ "How Is Poverty Measured in the United States?" Institute for Research on Poverty, Accessed April 27, 2015, <http://www.irp.wisc.edu/faqs/faq2.html>.

⁹ "Waging War on Poverty: Historical Trends in Poverty Using the Supplemental Poverty Measure," *National Bureau of Economic Research*, 2014.

¹⁰ Kenneth J. Neubeck, *When Welfare Disappears: The Case for Economic Human Rights*, New York: Routledge, 2006.

¹¹ George E. Rejda, *Social Insurance and Economic Security*, Englewood Cliffs, N.J.: Prentice-Hall, 1976.

in the reduction of poverty. Rather, they assert that such redistributive policies are incapable of having a far-ranging effect because little money may reach the poor, and such policies can undermine economic growth. A substantial share of government benefits are not directed to the nation's poorest. In 1991, for instance, more than half of transfer payments and tax benefits went to households with more than \$30,000 in income, double the poverty cutoff for a family of four.¹² Identifying the segment of the population in dire need proves difficult, but can be achieved with adequate metrics, key policy outcomes, and a deep understanding of varying degrees of poverty. For example, United States social welfare policy should highlight that individuals and couples without children should qualify for public assistance, and the child tax benefit aspect of the Earned Income Tax Credit program should apply to nonworking families in addition to working ones.¹³ Another argument against the notable impact of social-welfare policies stems from the supposed creation of a poverty trap in which recipients of government benefits are better off living on government transfers than holding a low-wage job. With increasing work eligibility requirements in the 1960s, however, some critics have dismissed this view. Lastly, proponents skeptical of the impact of social welfare policies assert that benefits may psychologically dis-incentivize recipients to work. This theory, too, has been disproven and providing social insurance has led to greater incentives and productivity. Otto Von Bismarck, the chancellor of Germany in the 1870s and 1880s used

¹² Lane Kenworthy, "Do Social-Welfare Policies Reduce Poverty? A Cross-National Assessment," *Social Forces*, 1999, 1119.

¹³ *Ibid*, 1135.

social welfare policies to undercut support for socialism.¹⁴ By portraying the state of Germany as serving the best interest of its people, workers were more incentivized to maintain efficiency and did not support socialist revolutionaries. Thus, there is overall agreement that social welfare policies enacted by the federal government can have a positive effect on recipients of the program, but the question posed is 1) to what extent should government provide for its people and 2) which program, means-tested or universal, will be most effective?

History illustrates that distributional concerns are of high priority in the enactment of public policies and that the most effective kind are those that enhance the well-being of both the rich and poor. Public goods are defined to be goods and services that are both nondiminishable- an individual's personal consumption of a public good has no effect on the amount available to others- and non-excludable- it is difficult to prohibit nonpayers from consuming the good.¹⁵ Such goods consisting of both properties are referred to as pure public goods, an example being national defense, while those consisting of solely the nondiminishability property are collective goods and provided by the government or private companies. Social Security is an example of a non-excludable public good. Critics argue that social security is a Ponzi scheme, or as Judge Janice Rodgers asserts, should be likened to intergenerational cannibalism because of today's "senior citizens cannibalizing their grandchildren...to get as much 'free' stuff as the political system will permit them

¹⁴ Bruce, Bartlett, "A Conservative Case for the Welfare State | Dissent Magazine," Dissent Magazine, April 25, 2015, Accessed April 27, 2015, http://www.dissentmagazine.org/online_articles/bruce-bartlett-conservative-case-for-welfare-state.

¹⁵ "Public, Merit and Demerit Goods," S-cool, the Revision Website, Accessed April 27, 2015, <http://www.s-cool.co.uk/a-level/economics/market-failure/revise-it/public-merit-and-demerit-goods>.

to extract.”¹⁶ Despite these views, social security is a public good providing universal insurance against dire poverty in old age.¹⁷ The willingness to pay for public as well as private goods is an increasing function of income. Hence wealthier individuals assign greater value to public goods than the poor because they have more money and can thus utilize more public goods.

Due to the persistence of poverty, the federal government has sought to implement a variety of reforms to address the needs of the nation’s most vulnerable. Both means-tested and universal programs have been implemented to target income disparities, which began predominantly in the 1960s. Lyndon Johnson’s War on Poverty aimed to strike at “the causes, not just the consequences of poverty,” to “not only relieve the symptom of poverty but to cure it.”¹⁸ The campaign was intended to produce a structure that promoted self-sufficiency, but instead the result was the creation of a massive system of increasing benefits to recipients.

The federal government’s role in means-tested transfer programs has contributed to the reduction of poverty in the last few decades. The Personal Responsibility and Work Opportunity Act (PRWORA) of 1996 ended the only cash assistance program to the poor, Aid for Families with Dependent Children (AFDC), and replaced it with the Temporary Assistance for Needy Families (TANF) that offered

¹⁶ "What You Need To Know About The Severely Conservative Judge Who Just Ruled Against Birth Control," ThinkProgress RSS, November 1, 2013, Accessed April 27, 2015, <http://thinkprogress.org/justice/2013/11/01/2876381/need-know-severely-conservative-judge-just-ruled-birth-control/>

¹⁷ "The Non-cash Benefits of Social Security," The Economist. November 15, 2010, Accessed April 27, 2015, http://www.economist.com/blogs/democracyinamerica/2010/11/social_security.

¹⁸ Robert Rector and Jennifer A. Marshall, "The Unfinished Work of Welfare Reform," The Heritage Foundation. January 22, 2013, Accessed April 18, 2015, <http://www.heritage.org/research/reports/2013/01/the-unfinished-work-of-welfare-reform>.

limited cash assistance to those in the workforce. The reform reduced the number of cash assistance caseloads from 12.3 million recipients per month in 1996 to 4.6 million in December 2011.¹⁹ Additionally, there has been an increase in other federal transfer programs, namely the Supplemental Nutrition Assistance Program (SNAP) and Earned Income Tax Credit (EITC). SNAP caseloads have increased from an average of 25.5 million recipients per month in 1996 to 47.3 recipients in January 2013. Similarly, EITC cases rose from 19.5 million in 1996 to 27.8 million in 2010.²⁰ Legislation has only furthered this phenomenon. The American Recovery and Reinvestment Act (ARRA) of 2009 increased SNAP benefits by roughly fifteen percent per household, while EITC expanded benefits with households of three or more children. The United States safety net is not entirely effective, as the number of households with children surviving on less than two dollars per day in the United States has risen dramatically over the past fifteen years.

In recent decades, the federal government has attempted to address the shortcomings of the nation's safety net. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced the existing safety net provided to the nation's neediest. This change from AFDC to TANF drew much criticism as many protested that economic human rights were not recognized in White House statements or congressional debates, and that there was a subsequent discrepancy between the progressive image the United States held in the international sphere with the existing lack of fundamental rights the federal government failed to support in its own country. This

¹⁹ Luke H. Shaefer and Kathryn Edin, "Rising Extreme Poverty in the United States and the Response of Federal Means-Tested Transfer Programs," *Social Service Review*, 2013, 250-68.

²⁰ Ibid.

yields the question of whether government welfare programs are a fundamental right. U.S. political elites hold financial security as an economic human right, a view evident in the United States' failure to ratify the International Covenant on Economic, Social, and Cultural Rights of 1966.²¹ Article eleven of this provision in the United Nations treaty establishes the right of everyone to have an "adequate standard of living...including food, clothing, and housing, and to the continuous improvement of living conditions," and has been signed by 164 nations.²²

The constitutional framework allows federal and state governments to regularly protect issues of race but argues that there is no fundamental right to economic security protected under the United States Constitution. The Constitution solely protects for negative rights. As such, there is no inherent guarantee that by virtue of being a citizen, an individual is endowed with basic assistance to combat poverty.²³ Poverty is not viewed as a suspect or quasi-suspect classification under section one of the Fourteenth Amendment. Further, class jurisprudence has not been involved in substantive due process analysis because there is no established baseline of economic stability, and procedural due process has solely been utilized to challenge questions of deprivation of previously initiated government benefits.²⁴ Class is an elusive idea, like poverty,

²¹ "International Covenant on Economic, Social and Cultural Rights," International Covenant on Economic, Social and Cultural Rights, Accessed April 17, 2015, <http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx>.

²² Ibid.

²³ Manuel Velasquez, Claire Andre, Thomas Shanks, and Michael Meyer, "Rights," *Santa Clara University: Markkula Center for Applied Ethics*, August 1, 2014. Accessed April 24, 2015. <http://www.scu.edu/ethics/practicing/decision/rights.html>.

²⁴ Mario L. Barnes and Erwin Chemerinsky, "The Disparate Treatment of Race and Class in Constitutional Jurisprudence," *Law and Contemporary Problems* 72, no.109 (200): 109-130, <http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1547&context=Icp>.

rendering it difficult to classify. Under equal protection jurisprudence, discriminatory impact against a group does not suffice as enough to trigger judicial scrutiny; instead, there has to be proof of discriminatory intent. However, because most laws disadvantage the poor through impact, this is difficult to prove. Society has also transformed over the decades, as will be addressed in the next chapter, and the extent to which the government is obligated to provide to the poor and the willingness of taxpayers to contribute funding to welfare programs for the betterment of society has evolved.

Although race and class are not mutually exclusive, interest groups have fought to separate such divisive topics in terms of policy treatment. Those advocating for race or gender-based remedies argue that an intense focus on socioeconomic status will undercut their efforts, evident in the massive debates between affirmative action being race-based as opposed to socioeconomic-based. The courts have also made a clear distinction between the two as evidenced in the well-known footnote of the *United States v. Carolene Products* (1937) court case.²⁵ The Supreme Court held that certain types of legislation might not merit individual deference regarding constitutional validity. Stone's footnote declared "prejudice against discrete and insular minorities may be a special condition, which tends to seriously curtail the operation of those political processes ordinarily to be relied upon to protect minorities" and thus "may call for correspondingly more searching judicial inquiry"²⁶ The ruling permitted the Supreme Court to override congressional decisions regarding racial discrimination. Hence, the Supreme Court has

²⁵ "United States v. Carolene Products Co," U.S. (1937).

²⁶ Mario L. Barnes and Erwin Chemerinsky, "The Disparate Treatment of Race and Class in Constitutional Jurisprudence," *Law and Contemporary Problems* 72, no.109 (200): 109-130, <http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1547&context=Icp>.

acknowledged that race is an immutable characteristic. Yet, a similar argument can and should be made for the poor. Individuals are born into poverty, just as one is born a certain race. While there are cases in which individuals can escape or fall into poverty, rendering one's economic status as mutable, class should merit the distinction of immutability. Unless an individual has equal access to profitable opportunities through adequate government support, he or she cannot have the mobility to change status. Federal and state government assistance thus determines the ability of individuals to alter their financial situation. The intersection of race and socioeconomic status should be analyzed to provide a better understanding of discrimination and poverty in the context of government support.

In recent years, poverty has been increasingly viewed as a choice. This is different from issues of race and gender in which individuals have endured centuries of subjugation and the government has sought to correct for it. The situation of the underprivileged is justified by meritocracy and the belief that working hard can lead to the American Dream. In *San Antonio Independent School District v. Rodriguez* (1972), Texas public elementary and secondary schools relied on local property taxes for additional revenue. However, the San Antonio School District challenged the state's funding scheme arguing that it created inequity of resources since students in underprivileged districts lacked vast property taxes that other districts utilized. The plaintiff in the case argued that the state of Texas' public education finance system violated the Fourteenth Amendment's Equal Protection Clause by failing to distribute equal funding across school districts. The Supreme Court declined to review the system under strict scrutiny arguing that there is no fundamental right to education explicit in the

Constitution. Further, the property tax system did not discriminate against all poor communities in Texas, rendering the funding scheme not “so irrational as to be invidiously discriminatory.”²⁷ The Powell Court argued that in terms of wealth and education the “Equal Protection Clause does not require absolute equality of precisely equal advantages.” While such a view is inherently problematic, serving only to perpetuate the issue of poverty, it is difficult to create a threshold of what constitutes the label of disadvantaged in absolute or relative terms. This case has had far-reaching implications, mandating that issues of poverty be subject to a rational basis review.

Politicians remain divided among party lines concerning the size of the government. Yet, since the 1960s the landscape of politics has changed with greater attention placed on social values and the dependency created from government policies, rather than achieving the goal of economic equality. Such a shift can be attributed to the exhaustion of what many view as social reform. The result, as Lawrence Mead argues, is an increasingly paternalistic government that does not seek to alter society but to manage the lives of dependents.²⁸

The viewpoints held by traditional conservatives and liberals have also transformed. Conservatism today has still retained its advocacy for smaller government but proponents expect issues of education and crime to fall under the jurisdiction of the government. Liberalism is still associated with bigger government but has now come to represent resistance to enforcement and greater tolerance for disorder, dependency, and

²⁷ “San Antonio Independent School District v. Rodriguez,” U.S. (1973).

²⁸ Lawrence M. Mead, *The New Politics of Poverty: The Nonworking Poor in America*. New York City, New York: BasicBooks, 1992.

ethnic pluralism. Thus, social authority is a larger distinguishing factor amongst these ideologies rather than the scope and scale of government.²⁹

America's welfare debate has centered on dependency politics, how to cope with nonworking people, and how to advance working people. More problematic, the debate has turned into a domestic issue of how to raise wages and benefits for working individuals rather than how to turn more poor individuals into workers. A greater issue has been whom the burden of the poor falls upon. In the era of progressive politics, it was never doubted that individuals were responsible for their personal prosperity, yet today; such a view no longer persists.

²⁹ Ibid, 2.

III. Development of the Welfare State

The role of the United States federal government has dramatically expanded over the centuries due to shifting political influences, unforeseen economic consequences, and evolving expectations of voters regarding the extent to which government should provide for citizens. It is argued that welfare has had adverse effects on recipients- undermining an individual's motivation to work and ostracizing him or her in a manner that perpetuates the mindset of an underclass. Yet, debates regarding income inequality in the United States framed in terms of welfare dependency are a fairly recent phenomenon. Cash assistance did not always denote dependency and such a transformation merits exploration into the roots of this assumption.

Dependency is an ideological term and its multiple meanings have been influenced by the context of the time. In current United States policy discourse, it evokes the image of a welfare mother- one who is often young, unmarried, a racial minority, and supporting multiple children.³⁰ However, this association has been the by-product of decades of welfare support. Thus, an examination of the development of the welfare state will shed light on the current meanings of welfare that have come to be associated with the creation of a dependency class.

i. Natural Rights Philosophy

Viewpoints held by the founding fathers were predominantly based on natural rights philosophy, particularly concepts articulated by English political philosopher John Locke, and rooted in American perception of the nature and jurisdiction of the role of

³⁰ Nancy Fraser and Linda Gordon, "A Genealogy of Dependency: Tracing a Keyword of the U.S. Welfare State," *Chicago Journals* 19, no. 2 (1994): 309-36.

government. John Locke is indeed one of the most influential thinkers on American political thought. His set of values formed the basis for much of the foundation of American government, largely evident in the wording of the Declaration of Independence. In his *Second Treatise on Civil Government*, Locke argues that men leave the state of nature and enter into a social contract with government to secure their natural rights, specifically to property.³¹ In the state of nature, men are born equal and are inherently self-interested. Thus, to enforce law and prevent the chaos evident in the state of nature, where man is at war with one another and life is “nasty, brutish, and short,” individuals choose to enter into the social contract. By doing so, they consent to the government, an idea illustrated in the preamble of the United States Constitution, in which “We the People” establish government “to ensure domestic tranquility” and “promote the general welfare.”³² Under this social contract, the people opt to willingly give up their rights in exchange for the protection of government.

ii. Traditional Sources of Economic Security & Influences in Early America

The uncertainties brought by unemployment, illness, disability, and old age experienced by many individuals throughout history are no different than those faced by many today. Due to the fact that early colonial America was under British rule, a brief examination of the English system provides insight into the early signs of the development of the welfare state.

In medieval Europe, the feudal system served as the basis of economic security.

One of the earliest formal organizations were guilds formed during the Middle Ages

³¹ John, Locke, *Two Treatises on Government*. London: Printed for R. Butler, etc., 1821; Bartleby.com, 2010.

³² Ibid.

by merchants or craftsmen. These with time gave way to the development of friendly societies, and ultimately fraternal organizations. Fraternal organizations and trade unions practiced actuarial-based life insurance. The rise in fraternal organizations was evident during the Industrial Revolution, with the most prominent ones including the Odd Fellows (1819), Benevolent and Protective Order of Elks (1868), Loyal Order of Moose (1888), and the Fraternal Order of Eagles (1898).³³

The English Poor Law of 1601 was the first codification of English ideas and established the principle that the state had a responsibility to provide for the welfare of its citizens. It provided taxation to fund relief activities, but most importantly, distinguished between the “deserving” and the “undeserving” poor. Evolving from medieval Catholic traditions, its purpose was rooted in charitable actions, which nurtured neighbors in need, as poverty was viewed as a condition.³⁴ The Poor Law in Elizabethan England provided a basic level of sustenance to indigent people that were administered by the parish.³⁵ The first colonial poor laws in America stemmed from the English Poor Laws and were similarly carried out by local town elders who determined the worthiness of the poor.

Revolutionary War figure Thomas Paine was one of the first to recognize the growing problem of the elder population in need of economic security, and thus became one of the forerunners of social insurance. In his 1795 pamphlet *Agrarian*

³³ “Social Security History,” *Social Security: Official Social Security Website*, Accessed April 25, 2015. <http://www.ssa.gov/history/>.

³⁴ *Ibid.*

³⁵ Sandra, Dahlberg, "Project MUSE - Early American Literature - "Doe Not Forget Me": Richard Frethorne, Indentured Servitude, and the English Poor Law of 1601," Project MUSE - Early American Literature - "Doe Not Forget Me": Richard Frethorne, Indentured Servitude, and the English Poor Law of 1601, Accessed April 27, 2015, http://muse.jhu.edu/journals/early_american_literature/v047/47.1.dahlberg.html.

Justice, Paine urged for the creation of a national fund through government taxation to ensure economic security in the new nation. His proposal was well aligned with his commitment to the equality of man evident in the Rights of Man in which he states that, “Man is all of one degree and consequently...all men are born equal with equal natural rights.”³⁶ Paine proposed that those inheriting property pay a ten percent tax to create a fund out of which a one-time stipend of fifteen pounds sterling would be paid to each citizen at the age of twenty-one. Additional benefits of ten pounds would be paid to every person age fifty or older. Thus, the former encouraged the idea of equality of opportunity and the latter guarded against old age, mirroring the underpinning of today’s old age disability insurance.³⁷

As America grew more complex, however, localized systems providing poor relief failed to persist and state intervention became necessary. With the introduction of state financing, the creation of almshouses and poorhouses prevailed for much of the eighteenth and nineteenth centuries. Such security came at a cost for recipients who typically gave up their personal property and their right to vote. Outdoor relief, or assistance in the form of cash, food, or clothing was discouraged by the skeptical American public, many of whom believed that it dis-incentivized the poor by removing the requirement of working in a poorhouse or almshouse. As a result, to dissuade dependency, those receiving government support endured poor working conditions. Radical Protestantism was an influential factor in creating a positive image of individual independence and an inherent critique of social and political dependency. With this, came the promotion of a strong work ethic that was upheld

³⁶ Ibid, 4.

³⁷ Ibid.

through discipline and labor. As such, both men and women strove to create opportunities to participate in the labor force and exhibit economic independence. Those unemployed rapidly became symbolic of the emergence of a new class of dependency. Among them, were the pauper, the slave, and the housewife.³⁸ The pauper was representative of industrial dependency as he or she lived on poor relief and was degraded not just due to the condition of extreme poverty, but often times due to character defects. The definition of paupers evolved from simply poor individuals to a new class characterized by their reliance on wages is indicative of the transformation of societal views on welfare between the sixteenth and eighteenth centuries.³⁹ Slaves exhibited another aspect of industrial dependency with their grounds for enslavement justified on the basis that they were conquered due to their intrinsic dependent natures. Such reasoning, in which the race of the Negro was viewed as another category, enabled racial discrimination to persist at a time when fundamental rights were hailed as inalienable. Lastly, the housewife was viewed as economically dependent on husbands in an attempt to promote male independence. The result was the justification that dependency came to refer to solely noneconomic relations, and thus dependency persisted as purely psychological and morally based. Due to the lack of a strong history in feudalism or aristocracy, dependency was viewed as self-imposed and voluntary. It became increasingly stigmatized with those receiving aid associated with pauperism.

iii. Civil War & Post-Civil War (1861-1889)

³⁸ Nancy Fraser and Linda Gordon, "A Genealogy of Dependency: Tracing a Keyword of the U.S. Welfare State," *Chicago Journals* 19, no. 2 (1994): 309-36.

³⁹ *Ibid*, 316.

The origins of the United States' first welfare program were evident following the Civil War. Widows and orphans, for example, could receive equal in amount to that which would have been payable to their deceased soldier if he had been disabled, thus enabling all veterans with disabilities related to the war to receive benefits. Military pensions were thus a large part of economic security for many and, by 1893 \$165 million were spent on such pensions, totaling the largest single expenditure ever made by the federal government.⁴⁰ In 1894, military pensions accounted for 37% of the entire federal budget. By 1910, Civil War veterans and survivors enjoyed a program of disability, survivor, and old-age benefits. In 1934, over half of the elderly in America lacked sufficient income and thus a number of pieces of legislation were passed so that thirty states had some form of old-age pensions by 1935. These programs, however, were riddled with flaws and were generally inadequate and ineffective as much of the elderly were reluctant to go on welfare due to the stigma associated with it. By 1932, seventeen states had old age pension laws, but 87% of the money available under these laws was expended in only three states.⁴¹ While strategic initiatives were adopted in early America to ensure a baseline level of economic security, changes in the social landscape at the time contributed to a notable switch in the operation of traditional systems.

The Industrial Revolution transformed the majority of working people from self-employed agricultural workers to wage earners, a problematic shift as individuals were thus more prone to exogenous factors such as recessions and layoffs. Perpetuating this changing nature was the move of most American families from rural communities to large cities, with the year 1920 signifying the point in which more people lived in cities

⁴⁰ "Social Security History," *Social Security: Official Social Security Website*.

⁴¹ *Ibid.*

rather than on farms. A product of urbanization was the decline of the extended family and the rise of the nuclear one. The advantage of the extended family was that children and others often were able to take care of elder family members who were disabled or too ill to work. The emerging family dynamic projected the responsibility to care for the elderly onto the younger generation, an ideology that formed the basis of Social Security.

iv. Progressive Era (1890-1920)

The Progressive Era in the United States signified a period of a period of social activism and political reform from the 1890s to approximately the 1920s. Early progressives believed that the problems plaguing society, such as poverty, violence, and greed, could be addressed by the promotion of education and effective government programs. Such reformers emphasized the urgency to expose the evils of corporate greed and combat fear of immigrants. When Theodore Roosevelt entered office in 1901, he asserted that strong corporations were good for America but must be carefully monitored. This era was short-lived and ended after World War I when the horrors of war exposed many to people's cruelty. One of the progressive era's hallmark goals was to eliminate corruption within society, and thus the federal government received support to pool resources accordingly.

v. Stock Market Crash, Great Depression, & New Deal (1929-1939)

The Stock Market Crash of 1929 put the United States, and as a direct result nations worldwide, into the Great Depression. With the disappearance of \$26 billion in wealth, corporations suffered drastic financial losses with unemployment exceeding 25% and the failure of 10,000 banks. The changing perception of the role of the United States government was not solely due to unforeseen economic pitfalls, but was attributed to the

evolving societal mindset that government hold a greater role in economic security. Two notable proponents of larger government assumed prominence during this period. Huey Long was a Governor of Louisiana from 1928 to 1932 and was elected to Senate in 1930. His program “Share Our Wealth,” sought to redistribute the wealth of the nation’s rich and privileged, and asserted that the federal government guarantee every family in the nation an annual income of \$5,000 so they could be guaranteed the necessities of life. Ultimately all individuals over the age of sixty should receive an old-age pension, aligning with his ideals, “Every Man a King.”⁴²His programs quickly circulated and resulted in a movement in which clubs were formed in all states, and by 1935, 27,000 clubs claimed 7.7 million members. Equally influential at the time were the thoughts of Francis E. Townsend who in 1933 at the age of sixty-six and after a career in medicine found himself with little savings. He galvanized as the leader for providing for the elderly and created the Townsend Plan in which government was suggested to provide a pension of \$200 per month to every citizen age sixty and older. The pension would be funded by a 2% national sales tax and individuals were eligible if they were retired, free from habitual criminality, and spent the money within thirty days of the receipt. Unlike other pension schemes, the Townshend Plan was at the forefront until the passage of the 1950 amendment to the social security program.

After the Great Depression poverty among the elderly grew rapidly. Over thirty states adopted old-age pension programs prior to the passage of the Social Security Act of 1935. Only about 3% of the elderly received benefits under state plans and the average benefit was sixty-five cents a day.

⁴² “Social Security History,” *Social Security: Official Social Security Website*.

vi. Great Society (1964-1965)

Over the centuries, however, the expectations of the obligations of government to its constituents have greatly evolved. Such changes are indicative of the rise in social insurance programs. Although aligned with the social contract theory, government has remained under obligation to provide for the safety and general welfare of its people with this definition expanding in meaning largely due to changes in the political climate as well as unforeseen economic events.

Although there was a high rate of poverty in many underserved neighborhoods throughout the first half of the 20th century, welfare dependency did not truly take shape and reach catastrophic heights until the mid-1970s, after which joblessness and unemployment rates have been high, especially for those living in ghetto communities.⁴³

Yet, the reason for such income disparity differs among academic scholars, politicians, and economists. Liberals have traditionally emphasized how the plight of disadvantaged groups can be related to broader societal problems, such as discrimination on the basis of race, gender, and class. Thus, progressive change is crucial and must be achieved through government programs. Conservatives, on the other hand, have traditionally stressed the importance of different group values and competitive resources in accounting for experiences of the disadvantaged asserting that it is government welfare spending programs that are perpetuating the vicious cycle of the poor. An interesting distinction between these approaches is the tendency for liberals to avoid the specification of a certain race lacking a breadth of opportunities, substituting it with

⁴³ William J. Wilson, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*, Chicago, Illinois: University of Chicago Press, 1987.

“underclass,” as opposed to the conservative view, which has been quick to target ethnic minorities such as blacks.⁴⁴ The push for welfare reform began in the 1960s and is heavily associated with former president Franklin Roosevelt’s administration. These included Social Security, Aid to Families with Dependent Children (AFDC), Worker’s Compensation, and Unemployment Insurance. Both Social Security and Worker’s Compensation strove to take care of those who could not or should not have to work. Unemployment Insurance served the purpose of providing for workers laid off for reasons beyond their control, and AFDC was enacted to care for widows with small children.⁴⁵ It was viewed as unsuitable for white women to work since jobs were scarce, hence justifying the existence of this welfare program. The New Deal legislation thus sought to provide a break for those unable to work due to stressful financial circumstances beyond their control, old age, or an inability to provide for themselves.

Yet such support for the nation’s most vulnerable gradually began to wane in the next decade. The increasing public dissatisfaction centered on the permanency of welfare stemmed primarily from AFDC in which many critics argued that it supported healthy, able-bodied adults. The intention of this program was to provide substantial support for widows until their children were old enough to support themselves, yet with time, citizens gradually became aware of the fact that many recipients benefitting from the program were not widows, but rather unmarried. In fact, many were arguably aware of their inability to support another life in this world and yet still continued to have

⁴⁴ William J. Wilson, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*, Chicago, Illinois: University of Chicago Press, 1987.

⁴⁵ Charles A. Murray, *Losing Ground: American Social Policy, 1950-1980*, New York: Basic Books, 1984.

children.⁴⁶ Hostility, however, was not just limited to the poor, but also directed towards minorities, especially blacks. Rooted partially in racial discrimination at the time, critics asserted how blacks took advantage of the system, evident with their large families that accumulated massive benefits. Thus, the 1950s saw the last remnants of the traditional consensus influenced by the Poor Law of Elizabethan England in which a civilized society ensures that all are cared for. Yet, the implementation of a decent provision to uphold this was hedged with qualifications and the general thought was to warn against the perniciousness of the bottom. The involuntary and the helpless constituted the deserving poor, while others were considered vagrant, simply taking advantage of the community's generosity. Thus, the dilemma was striking the balance between caring for the deserving poor and preventing recurring dependency of recipients of welfare programs.

The dynamic of social welfare policy programs changed from 1950 to 1980. Civilian social welfare costs increased by twenty times from 1950 to 1980 in constant dollars while the United States population increased by half. This "revolution" in the execution of welfare programs began with President John F. Kennedy's term. In his welfare address to Congress in 1962, he states that "the goals of our public welfare program must be positive and constructive...[it] must stress the integrity and preservation of the family unit. It must attack dependency...[and] it must reduce the incidence of these problems, prevent their occurrence and recurrence, and strengthen and protect the vulnerable in a highly competitive world."⁴⁷ His sentiment was unique and differed from

⁴⁶ Ibid, 18.

⁴⁷ Ibid, 15.

strategies echoed by his predecessors. His unifying slogan, “Give me a hand, not a handout,” became a rallying cry during the War on Poverty. Kennedy’s program included training programs and rehabilitative efforts, but it was his stance that government has a vested stake in its people and thus a continuing responsibility to provide for all Americans that set the stage for reform. The platform of the Kennedy administration was indeed naïve, asserting that initially the cost of the welfare program would be higher than the mere constitution of handouts but that it would be restored to the government in the long run. The premise of the model was that able-bodied individuals are willing to work but lack the opportunity to do so. Thus, programs sought to train the young and abled to acquire strong skills and pave the way for employment and consequently self-sufficiency. This was evident in the Public Welfare Amendments of 1962 and the first Manpower Development and Training Act (MTDA). These elements are embodied in today’s Social Security program.

Until 1960, the purpose of the federal government reflected in appropriate government spending policies.⁴⁸ The bulk of government expenditures were spent on defending the republic against foreign threats and building a defense. While other spending did include limited public service and infrastructure investments, historically these transfer payments did not account for a significant portion of the federal ledger. According to the Bureau of Economic Analysis, which reports on America’s GNP estimates and related national account, it identifies only two calendar years before 1960 in which federal transfer payments exceeded federal expenditures- in 1931 under President Herbert Hoover’s public relief programs and in 1935 under President

⁴⁸ Nick Eberstadt, *A Nation of Takers America's Entitlement Epidemic*. West Conshohocken, PA: Templeton, 2012. Print.

Roosevelt.⁴⁹ From the 1960s to the 1980s the perennial question of welfare reform changed from a progressive one to the centerpiece of dependency politics. In early years, politicians argued primarily over basic rights to support and scale the benefits of the disadvantaged.⁵⁰ In the 1960s, politicians argued for reforms seeking to extend welfare against early advocates of workfare. The debate shifted in the 1970 to one of how to raise work levels with an emphasis on focusing on the barriers that seemed to prevent work due to a troubled economy.⁵¹ The 1980s reflected a time in which work programs could operate and thus the view shifted to one of paternalistic in social policy with an emphasis placed on entitlement to work obligation.

Kennedy's legacy and rhetoric were evident in the following years under Lyndon Johnson's administration. Within his first nine months of office, Johnson signed the initial antipoverty bill, providing full and part-time job training, loans to low-income farmers and businessmen, and community antipoverty projects. The Temporary Assistance for Needy Families (TANF) was a block grant created from the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 with a single purpose to "end welfare as we know it." Signed into law by President Bill Clinton, TANF enabled states to use its dollars to achieve any of four purposes set by federal law: 1) to provide assistance to families in need so that children can be cared for in their own homes, 2) to reduce the dependency on government benefits by promoting job preparation, 3) to reduce the incidence of out-of-wedlock pregnancies, and 4) to

⁴⁹ Ibid.

⁵⁰ Lawrence M. Mead, *The New Politics of Poverty: The Nonworking Poor in America*. New York City, New York: BasicBooks, 1992.

⁵¹ Ibid, 108.

encourage the formation and maintenance of two-parent families.⁵² Hence TANF funds were utilized to fund a breadth of services ranging from income assistance, transportation, and aid to at-risk children. States were required to spend some of their dollars on programs for needy families, known as maintenance of effort (MOE). One of the restrictions with TANF is its limitations in the distribution of aid as it prohibits assistance to legal immigrants unless they have been in the United States for five years.⁵³ The evolving social and political climate of the time denounced cash assistance programs to the poor, and hence the goal of TANF was two fold: a) work requirements, b) time limits. Therefore, federal law required that half of the families receiving assistance under TANF be engaged in a work-related activity for atleast thirty hours, or twenty hours if a single parent with young children. States were also required to have a higher share of two-parent families. Additionally, no family that includes an adult recipient may receive federally funded assistance for longer than 60 months, and exceptions can only be made for twenty percent of their caseload years.⁵⁴ TANF in large part has been an effective policy as states had the discretion to use federal funds accordingly to best tailor programs that would be successful within their jurisdiction. The fact that TANF cash assistance caseloads fell significantly in the first five years and that single parent workforce participation rates rose is evident of its success, but should be noted with caution. Other confounding variables such as a stronger economy, state-to-welfare efforts, availability of childcare assistance, and Earned Income Tax Credit were also influential factors in the reduction of caseloads. Furthermore, many recipients left the program because they were

⁵² "About TANF," Office of Family Assistance, Accessed April 17, 2015.

⁵³ Daniel Trisi and LaDonna Pavetti, "TANF Weakening as a Safety Net For Poor Families," *Center on Budget and Policy Priorities*, March 12, 2012.

⁵⁴ *Ibid.*

terminated.⁵⁵ The success of TANF is thus inconclusive. An effective addition to means-tested programs would be the inclusion of couples without children and unmarried individuals. The role of welfare-to-work programs in the 1990s sought to reduce dependence on cash assistance for non-workers by providing greater incentives for welfare recipients to look for work. Eliciting motivation from recipients to seek employment is crucial to the effectiveness of welfare policies.

The programs that expanded from 1990 to 2008 represented a mix of older and newer entitlements. Despite views on the size of government, most Americans were routinely willing to support increases in federal spending. Additionally, a measure of public supports rests on the need of the recipient and the presumed impacts of redistributive programs on recipients. Transfer programs do not lend themselves for use at recipient discretion and hence merit more public support than cash grants, which are at risk to misuse by the poor. In 2007, for instance, the federal government spent over \$33 billion on Food Stamps, approximately twice the amount spent on TANF.⁵⁶ Similarly, programs supporting fundamental needs that are basic rights of citizenship, food and healthcare, produce strong support. Medicaid has enjoyed strong support in recent years primarily because Medicaid dollars cannot be spent as one sees fit but rather must go directly towards medical providers. Another dimension of support stems from the vulnerability of the recipients, with more empathy elicited to the elderly and children. 70% of Medicaid dollars are spent on elderly people demonstrating the additional support to the old and vulnerable. Another equally important factor in the maintenance of the

⁵⁵ Ife Floyd and Liz Schott, "TANF Cash Benefits Continued To Lose Value in 2013," *Center on Budget and Policy Priorities*.

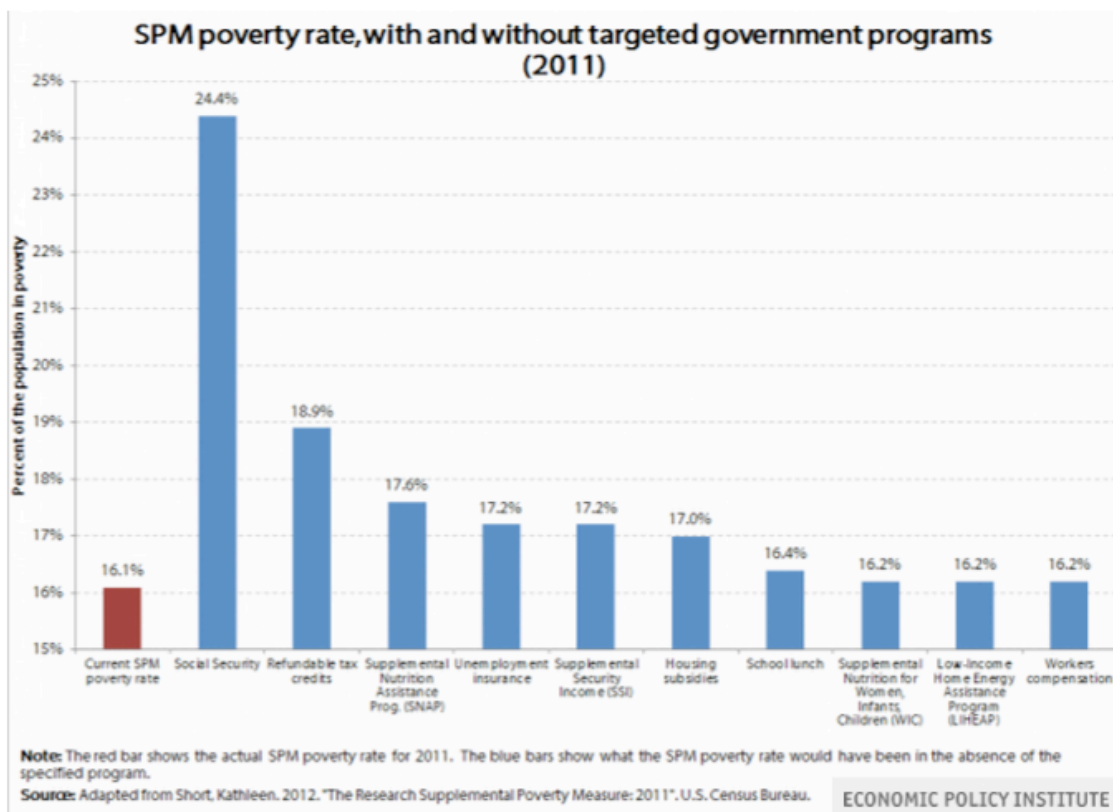
⁵⁶ Greg M. Shaw, "Changes in Public Opinion and the American Welfare State," *Political Science Quarterly* 124, no. 4 (2013): 627-53.

welfare state involves America's confidence in the long-term financial viability of major redistributive programs.⁵⁷ Social Security is a prime example and its current insolvency is a justification for its prioritization in public policy.

⁵⁷ Ibid.

IV. Case Study: Social Security Act

The most effective anti-poverty program in the United States has been Social Security. Without it, it is estimated that an additional 8.3 percent of Americans or over 25 million people, would fall below the supplemental poverty measure (SPM) threshold.⁵⁸ While other programs, such as Earned Income Tax Credit (EITC), kept 2.5 percent or roughly 2.5 million Americans above the SPM poverty measure, SNAP and unemployment insurance have also made significant contributions.



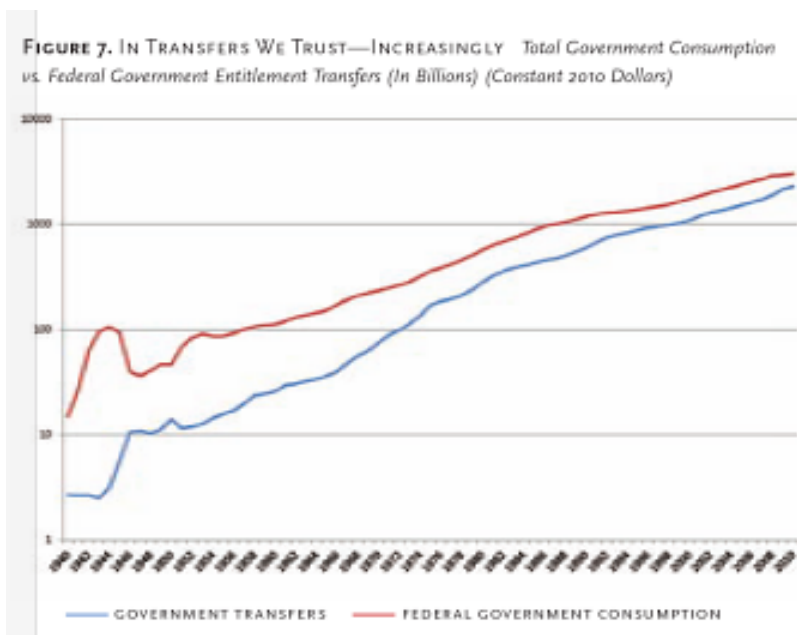
The passage of the Social Security Act in 1935 revolutionized the political,

⁵⁸ Elise, Gould, "Social Security Is the Most Effective Anti-Poverty Program in the U.S., In One Chart," *Economic Policy Institute*.

social, and economic landscape of the United States by redefining the government's responsibility to promote welfare for all. Yet, total welfare for an individual cannot be regimentally defined or necessarily quantified. Thus, economic security has in large part been equated with general welfare, as economic stability has been historically proven to play a role in an individual's happiness. Satisfying an individual's needs in both the present and the future has been the driving force behind current policies in the Social Security program. Social Security refers to the programs established by law that insure individuals against the loss of earned income, and for other expenditures including marriage, death, and the birth of children. Today, Social Security in the United States consists of the Old Age, Survivors, and Disability Insurance and is considered a social insurance program. It seeks to combat frequent problems caused by economic insecurity that could lead to a loss of income, insufficient income, additional expenses, and uncertainty of income. These causes include but are not limited to: poor health, unemployment, substandard wage, natural disasters, and related personal factors. Scholars and policy makers continue to debate the relevance of all facets of the current program. Since its inception in 1935, the benefits of Social Security have been distributed on a scheduled timeline, providing a basic level of monthly income to workers after a certain age or disability. Yet, with evolving population dynamics, the current structure of the system does not prove sustainable.

Despite the complexity of the current United States entitlement system, public transfer data can be divided into six categories: income maintenance, Medicaid, Medicare, Social Security, unemployment insurance, and other. Income maintenance and Medicaid are based off of poverty and income status, while Medicare and Social Security

are based off of old-age status, and unemployment insurance off of status of employment. These five categories account for 90% of federal government transfers. As the chart below indicates, in 1960 the entitlement program transfer payments accounted for about one-third of the federal government's total outlays and in 2010 it represented close to two-thirds of federal government spending.⁵⁹

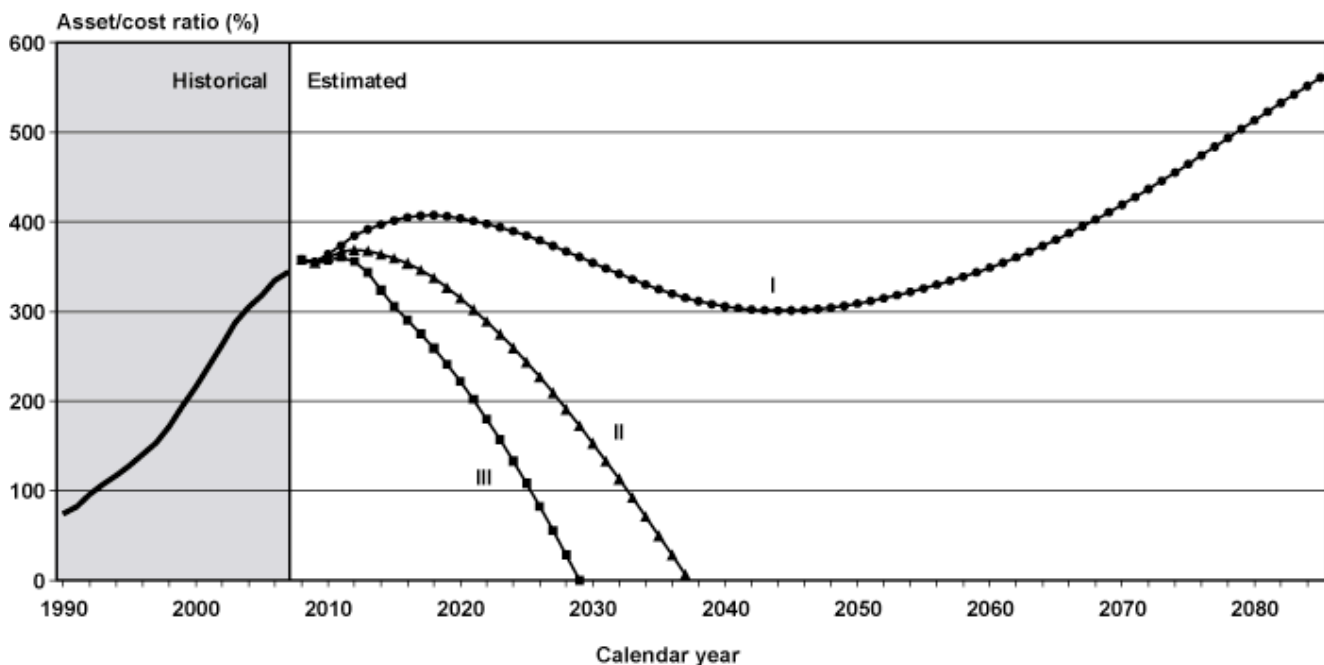


The two Social Security trust funds include the Old Age and Survivors and Disability Insurance (OASDI) as well as Hospital Insurance (HI), an aspect of the Medicare program. The characteristics of the OASDI program include but are not limited to the fact that it is a compulsory program, there is a minimum floor of income, benefits loosely related to earnings, rights to benefit with no means test, self-supporting contributory principle, and a plan not established solely for government employees.

⁵⁹ Ibid.

Both trust funds are unique in that they can only be paid to the extent that the funds have a source to draw the assets from. Different from other federal government operations, these two trust funds do not have the ability to borrow to ensure that benefits are being paid in a timely manner, thus rendering the sustainability of these assets over time a key indicator of their solvency. As the chart below indicates, the OASI and DI trust funds are predicted to peak at over 350 percent of the annual cost of the program in 2010.

Combined OASI and DI Trust Fund assets as a percentage of program cost, 1990–2008, projected under alternative assumptions, 2009–2085



Source: 2009 Social Security Trustees Report, Figure II.D6 and Table IV.B3.

NOTES: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative III = high-cost assumptions.

i. Current System of Social Security

Social Security functions as a payroll tax which is levied on both employers and employees. For a percent of every dollar, an individual earns up to a ceiling after which he or she is no longer subject to a Social Security tax. Upon retirement, a worker gathers his or her check of lifetime earnings. The exact amount varies by year to account for inflation in the economy.⁶⁰ The convergence of three trends is causing issues with the solvency of the Social Security program: the aging of the baby boomer generation, the decrease in the fertility rates, and inadequate levels of private savings. Thus, the well-known three-legged stool of retirement security—Social Security, private pension plans, and personal savings—are in dire need of policy reformation.⁶¹

Changing Population Dynamics

The population dynamics in the United States are rapidly changing with the number of older individuals exceeding the amount of young, able-bodied adults. In 1940, the life expectancy of a 65-year-old American was roughly fourteen years, while today it is approximately twenty years. By 2040, nearly one in four Americans will be aged sixty-five or older.⁶² In addition, the rise in elderly citizens has been coupled with a decline in fertility rates, or a baby bust, leading to few workers to fund benefits for the elderly. The ratio of people over the age of sixty-five to those aged twenty to sixty-four has risen from 0.14 in 1950 to 0.21 in 1999, and is projected to be 0.36 in 2030. As a result of changes over the years, Social Security benefits are expected to be paid on time until 2037, after which trust fund reserves are projected to be used up and continuing taxes will serve as

⁶⁰ Derek Thompson, "9 Ways to Fix Social Security," *The Atlantic*.

⁶¹ "21st Century Retirement Security Plan: Final Report of the National Commission on Retirement Policy." *Cornell University ILR School*.

⁶² *Ibid*, 1.

the only basis for covering 76% of the scheduled benefits. Payroll taxes would have to drastically increase to continue to finance this program.

Decline in Savings

The amount of savings in American households does not mirror demand needed to finance the elderly and disabled. Overall America has had a low savings rate, and a negative in September and October of 1998. A low savings rate threatens the stability of the financial security of individuals. The rate of personal savings declined from twelve percent of gross domestic product (GDP), in 1965 to five percent of GDP in 1995, illustrating the little planning Americans are doing to meet their future retirement expenses. To add to this problem, a small amount of workers are enrolled in employer-sponsored pension plans, a limited option for minorities and women who hold shorter wage contracts and are less likely to be covered as part-time employees.

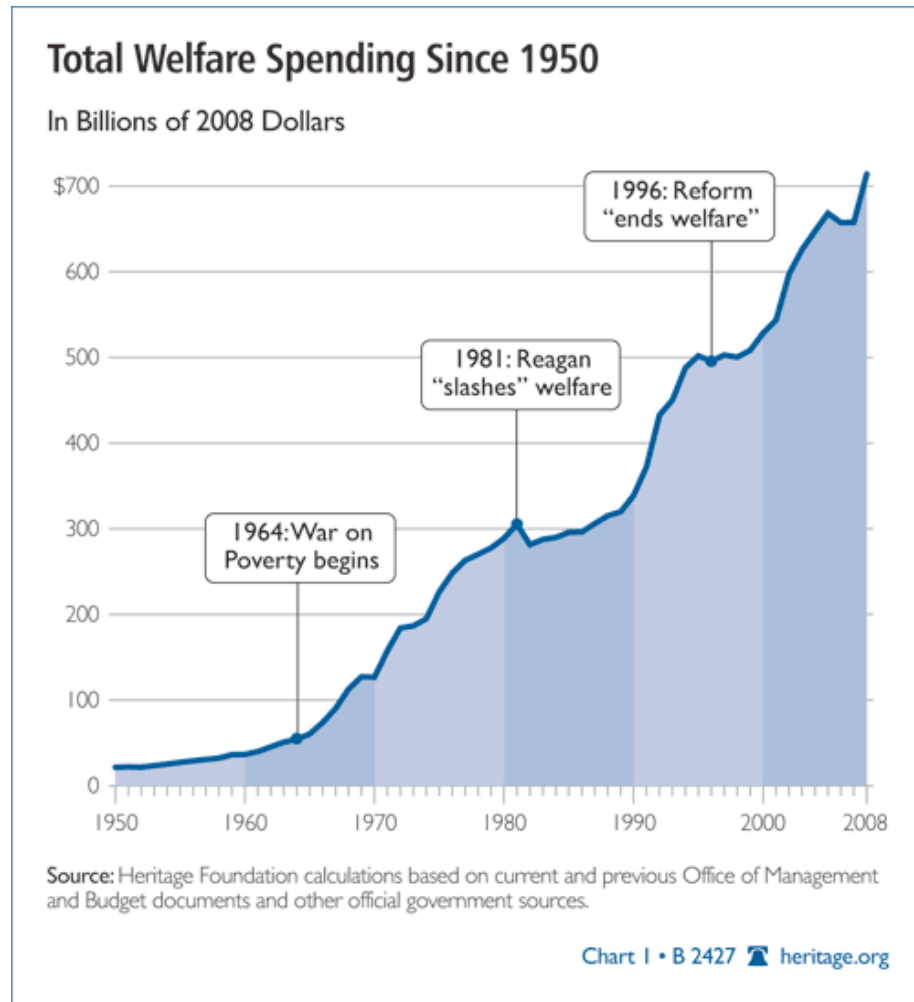
Thus, the issue of solvency of Social Security merits great attention in Congressional debate, and should be prioritized on the policy agenda so a comprehensive retirement plan can be developed for the growing number of elder Americans.

ii. Evolution of Social Security

When President Lyndon Johnson announced the War on Poverty in 1964, he created large-scale national programs to aid the poor that consumed 1.2 percent of the U.S. gross domestic product (GDP). Today, such spending on welfare programs are thirteen times greater than they were in 1964 and consume over five percent of GDP.⁶³ Thus, Johnson did not receive his targeted goal to empower the poor to be self-sufficient.

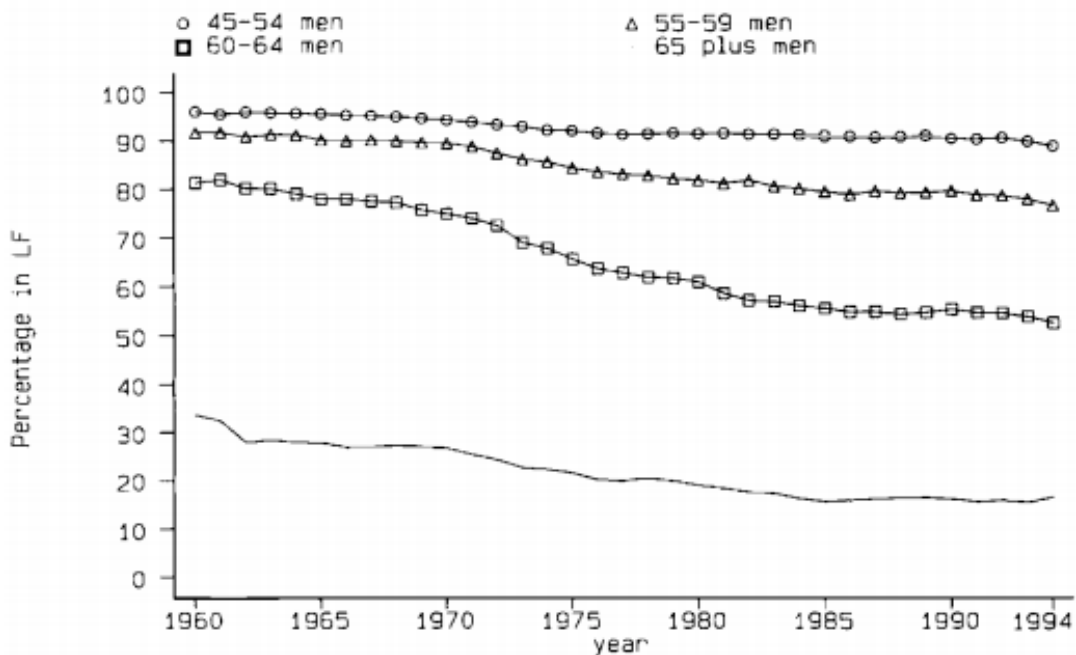
⁶³ Katherine Bradley and Robert Rector. "Confronting the Unsustainable Growth of Welfare Entitlements: Principles of Reform and the Next Steps." *Confronting the Unsustainable Growth of Welfare Entitlements: Principles of Reform and the Next Steps*. The Heritage Foundation.

Since the creation of the “War on Poverty,” the United States government has spent \$15.9 trillion on means-tested welfare leading critics to argue that such cash assistance has undermined the work ethic of low-income families.

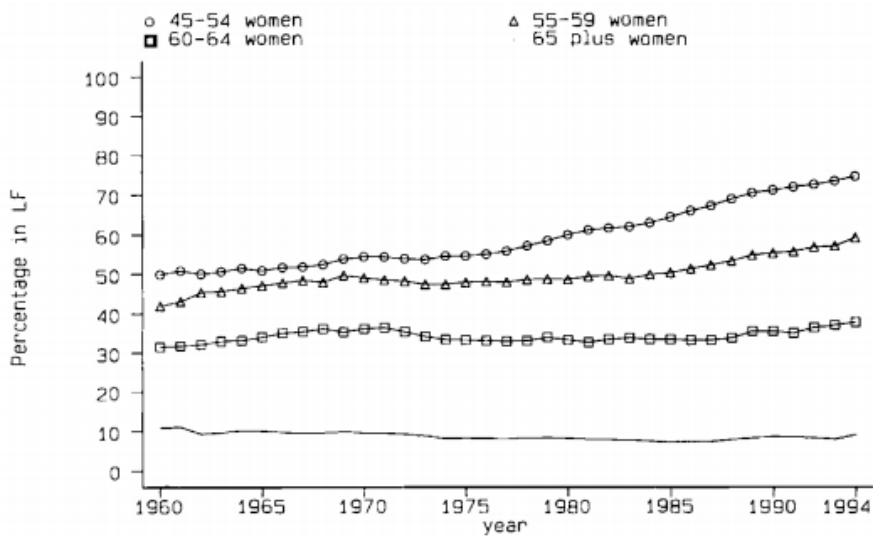


It is worthy to note that between 1960 and 2010, the growth of entitlement spending was exponential, and overall 8% higher if the president happened to be a Republican over a Democrat. The Nixon, Ford, Bush junior administrations thus contradict the Republican ideology of limited government and low levels of federal spending.

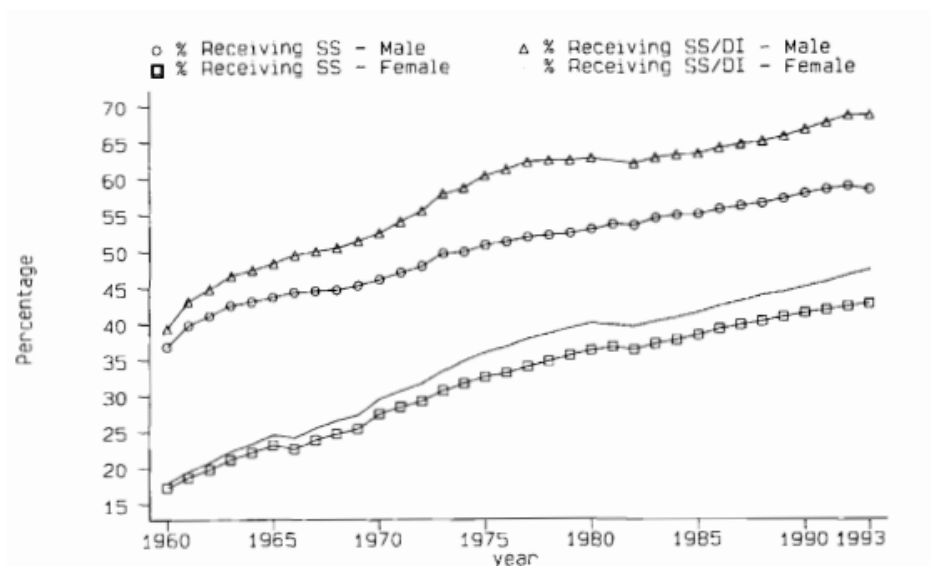
The premise of the Social Security model as a result of the 1935 act became two provisions: 1) Title I which consisted of grants to states for old-age, and 2) federal old-age benefits that were based on payroll tax contributions an individual built up over his or her lifetime. One of the most notable trends in the United States labor market in the twentieth and twenty-first century has been the decline in the labor force for the elderly. In 1950, roughly sixty percent of men from sixty-five to sixty-nine were participating in the labor force, while by 1990 this figure had fallen to twenty-six percent. The graph below depicts the historical decline in labor force participation, most noticeably among older men aged sixty-five and older.



Interestingly, we do not find a similar trend when examining the labor force participation rate of women since 1960. Instead, labor force participation rates are increasing across the board, as shown below, although slightly tempered for the oldest age group sampled.



The dramatic increase in the number of older men and women receiving both social security and disability insurance benefits has rapidly increased since the 1960s.



The initial intent of FDR's Social Security plan continues to be the source of debate in American politics. Since the passage of the 1935 Social Security Act, there have been a number of reforms to this legislation. Although the program has received

extensive support since its implementation, it is crucial to note its purpose at the time. Social Security was created after the Great Depression, and was designed to protect American people against the “hazards and vicissitudes of life.”⁶⁴ While the program achieves this in large part, its biggest flaw is the alarming depletion of trust funds and limited signs of future modifications.

The first arduous task tackled by the Social Security Board in its initial years was registering employees and workers by January 1, 1937 when workers began to acquire credit towards old-age insurance benefits. The Board paired with the Post Office department to distribute applications, with the first wave distributed in November 1936. The numbers were assigned in local post offices and then sent to major post office centers, ultimately forwarded to Baltimore, Maryland where the various social security numbers were registered and recorded. Over thirty million SSN cards were registered at the time and 151 major post office centers were established.⁶⁵ The first Federal Insurance Contributions Act (FICA) taxes were collected in January of 1937 with benefits distributed to elders from the Social Security trust fund. Funds accumulated from 1937 to 1942 and a single lump-sum payment was the first method of benefit distribution, with monthly benefits beginning in 1942. The average lump-sum payment during this period was \$58.06. This distribution system did not persist into subsequent decades and necessitated reform.

1939 Amendment

The 1939 Amendment expanded the scope and impact of Social Security. The initial act provided retirement benefits solely to workers. This new amendment

⁶⁴ “Social Security History,” *Social Security: Official Social Security Website*.

⁶⁵ *Ibid.*

transformed the program into a family-based economic security system by adding new categories to the benefits package: payments to the spouse and minor children of the retired worker, dependents, and survivor benefits paid to families in the event of a premature death.⁶⁶

1950 Amendment & 1972 Legislation

Little changes were enacted between 1940 and 1950. Payments were fixed amounts; however, the retirement benefits were arguably low and a greater number of Americans received more in old-age assistance benefits than Social Security. Harry S. Truman signed the Social Security Amendments on August 28, 1950 finalizing previous legislation that failed to clarify such benefits. The organized elderly pushed for pension funds. Such benefits wanted to be applied to all Americans, not those who necessarily paid into the payroll tax system. This idea stemmed from the proposal of the Townshend Plan (1934) which gained support from about one-fifth of Americans over the age of sixty-five.⁶⁷ This mobilization of reaping benefits without paying into the system continued for a major portion of the 1940s. The current debate involves Republicans advocating that the Social Security program be privatized with personal investment accounts, while Democrats continue to purport, with the help of the AARP, that FDR intended Social Security be a social insurance program a large portion of the elderly class would need the support of the system.

Due to the shortcoming of the program, the federal government passed a series of amendments after 1950. Annual Social Security benefits increased due to inflation, a

⁶⁶ "1939 Amendments." *Social Security: Official Social Security Website*. Accessed April 25, 2015. <http://www.ssa.gov/history/1939amends.html>.

⁶⁷ "Social Security History," *Social Security: Official Social Security Website*.

program known as Cost of Inflation Allowances (COLAS). In 1972, new legislation allowed for automatic annual COLAS with the effective start date in 1975 based on the fluctuation of consumer prices.

Disability Insurance and Medicare

The decade of the 1960s brought substantial changes to the Social Security program. The Social Security amendments of 1954 implemented a disability insurance to ensure further economic security for the elderly population. On August 1, 1956 the Social Security Act was amended to account for benefits to disabled workers and children. President Eisenhower signed a law amending the disability rules to allow payments of benefits to disabled workers of any age and to their dependents in September 1960. Further, the 1961 amendments lowered the eligibility of men for old-age insurance to the age of sixty-two. Medicare was the most revolutionary bill introduced during this decade. Implemented by President Johnson, Medicare extended health coverage for almost all Americans aged sixty-five and older. During the first three years of the program, nearly 20 million beneficiaries were enrolled in the program. In the 1970s, the Social Security Administration also produced the Supplemental Security Income (SSI) program, which affected primarily widows and widowers. It provided a minimum retirement benefit, adjusted the benefit formula governing men of age sixty-two, extended Medicare to those who have received disability benefits for at least two years and those who had chronic renal disease, and more. In 1977, another amendment was passed as it became apparent that Social Security funding was limited. Thus, the fear that trust funds would be exhausted and that the program of Social Security would not be feasible for future decades is a recurring problem that makes it an imperative to examine in further detail.

One of the most controversial elements of the program was under President Reagan's administration. In 1983, Congress passed a law that taxed Social Security benefits, covered federal employees, and increased the retirement age to sixty-five. This was supported after Reagan's appointment of a blue-ribbon panel known as the Greenspan Commission, which sought to study the issues of Social Security and offer policy recommendations.

iii. Reform

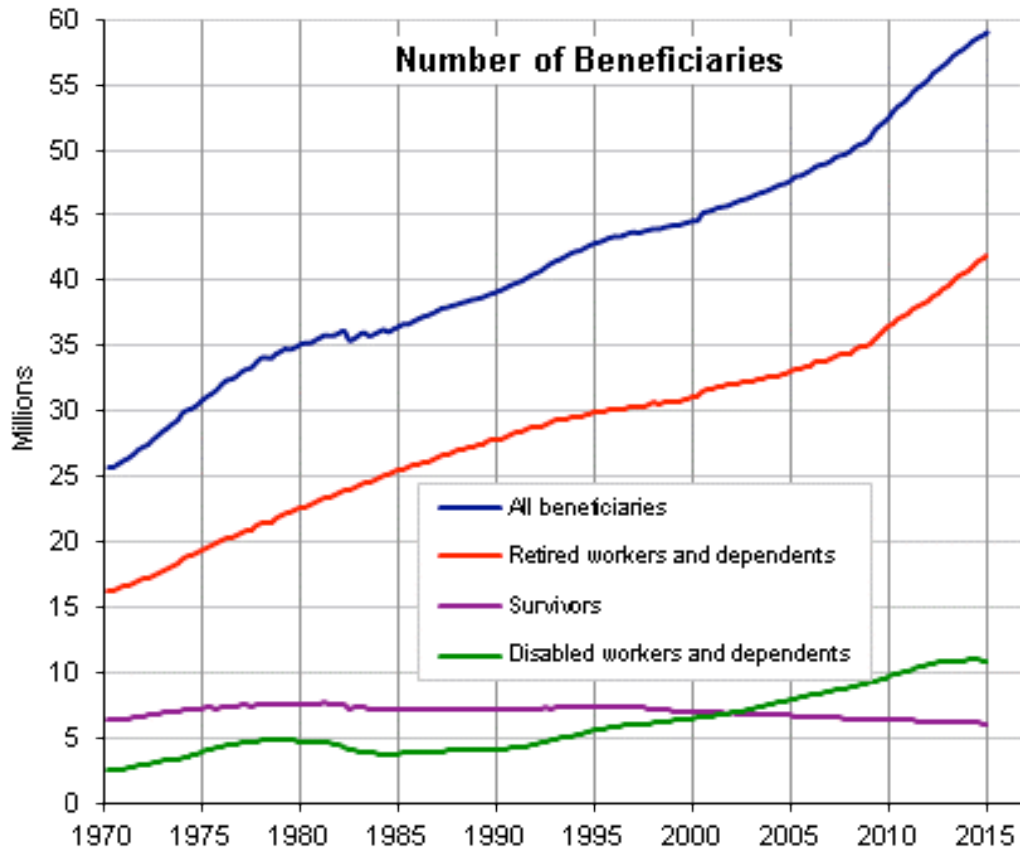
Regardless of one's view of the idea of Social Security, its viability must be addressed. Ingrained in our system for the past eighty years, Social Security needs to be reformed in order to ensure its feasibility. There are three main options when considering reform: 1) removing the system altogether, 2) failing to address the system in place, a "do nothing" response, or 3) reforming aspects or the entirety of the program.

Removing Social Security

Although only in existence for roughly eighty years, Social Security cannot be removed in its entirety due to the inherent entitlement that Americans feel towards it. Some critics argue that if means-tested social insurance programs were of scale in the United States providing significant welfare benefits, there would be no need for Social Security.⁶⁸ Yet, the growth of this program since its inception is by definition indicative of the importance of its existence. In 1940, roughly 222,000 Americans received monthly Social Security monthly benefits, while at the end of 2014,

⁶⁸ Anton Braun, Karen Kopecky, and Tatyana Koreshkova. "Old, Sick, Alone, and Poor: A Welfare Analysis of Old-Age Social Insurance Programs."

approximately 59,007,158 Americans benefited from Social Security. Retired workers would be the hardest hit by the removal of Social Security.



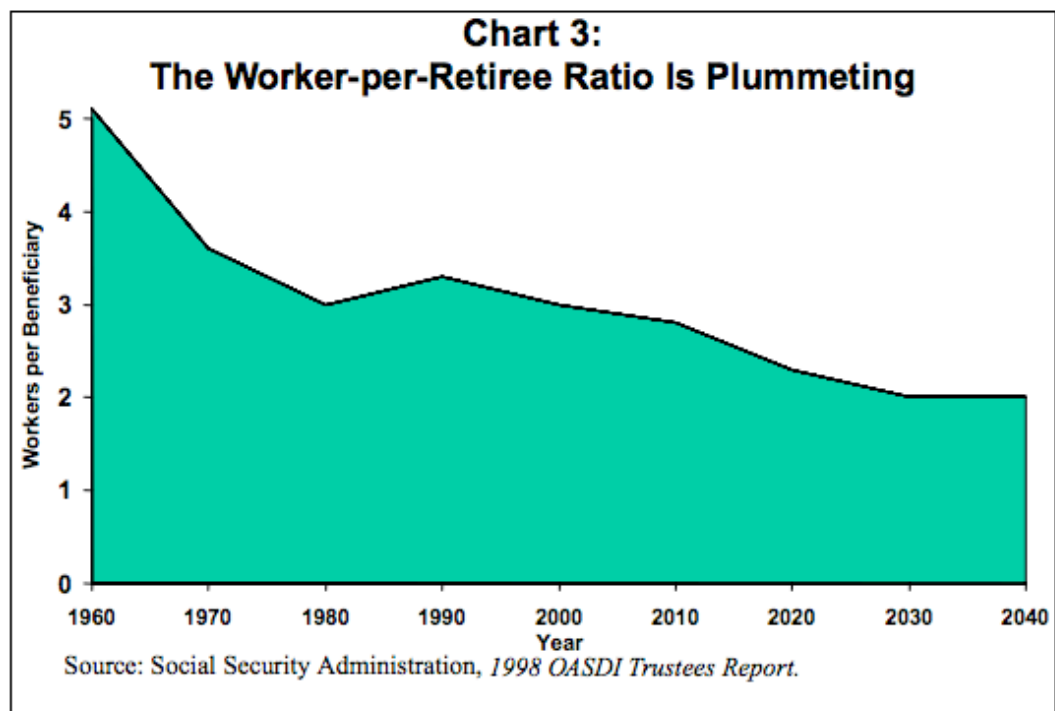
69

The chart above is indicative of the growing dependence of this universal program in the last three decades. This dependency is not akin to traditional definitions of welfare dependency, but rather a mutual exchange in which workers pay into the system and subsequently reap the benefits.

⁶⁹ "Number of Social Security Beneficiaries." *Official Social Security Website*.

“Do Nothing” Tactic

Similarly, we cannot avoid fixing the current program because, as detailed before, the structure of Social Security is insolvent. The worker-per-retiree ratio is rapidly plummeting and is projected to continue to do so until 2040.



This is simultaneously combined with increasing life expectancy, a baby bust, rising healthcare costs, and inadequate levels of savings. Thus, given the necessity of this program, we turn to an examination of potential reforms to Social Security.

Potential Reforms

Over the decades, a number of policy experts, economists, professors, and politicians have put their best foot forward in attempting to address the shortfalls of Social Security. Yet, all have been met with little to no success. All reforms may not attract immense support or serve as a temporary solution to the insolvency issue, so a combination of a couple proposals proves valuable.

a. Increasing Payroll Taxes

Social Security is currently financed through a payroll tax, which falls on both employers and employees. As of 2015, the employer's Social Security tax rate is 6.2% of each employee's first \$118,500 in wages. If a given employee's salary exceeds this amount, it is not subject to a greater Social Security tax. Thus the maximum amount of the employer's tax for each employee in 2015 is 6.2% of \$118,500, or \$7,347.⁷⁰ The employee must match this rate, rendering the total payroll tax rate at 12.4 percent in 2015. The self-employed payroll tax rate is also 12.4 percent.⁷¹ In 2012, 70 percent of the total OASI and DI income was derived from payroll taxes, with the remaining from interest earnings, revenue from taxation of OASDI benefits, and reimbursements from the General Fund of the Treasury.

As the number of recipients increase, funding must increase. Yet, there are inherent flaws in raising the tax rate. Since its inception, Social Security payroll taxes

⁷⁰ "Update 2015," *Social Security Administration*, Accessed April 23, 2015. <http://www.ssa.gov/pubs/EN-05-10003.pdf>.

⁷¹ "How Is Social Security Financed?" *Social Security: Official Social Security Website*, Accessed April 26, 2015, <http://www.ssa.gov/news/press/factsheets/HowAreSocialSecurity.html>.

have risen from two percent to 12.4 percent and the wage base from \$3,000 to \$118,500. While having employers and employees funnel more of their wages into the system may create more solvency, its long-term implications do not outweigh the short-term benefits. Raising the tax rate will discourage workers to put in quality work. A higher payroll tax rate could reduce employment, as employers do not want to have to give up more of their revenue, and simultaneously decrease the work ethic of employees who essentially see a reduction in their nominal wages as more of their paycheck is being deducted to fund Social Security.

b. Raising the Retirement Age

Congress passed legislation in 1983 increasing Social Security's full-benefit retirement age. Initially, the full-benefit age was sixty-five and early retirement benefits began at age sixty-two with eighty percent of the full benefit amount.⁷² Today, the full benefit age is sixty-six for individuals born between 1943-1954 and sixty-seven for those born in 1960 or later.⁷³ Early benefits remain available at age sixty-two but will be reduced to seventy percent of the full benefit while benefits first taken at age sixty-five will be reduced to 86.7 percent.

Thus, there is incentive to raise the normal retirement age or to encourage savings by raising the early retirement age from sixty-two. This view is supported by the increased life expectancy of the average American, which should be reflected in a labor force that works for the same number of years proportionally as before. Yet,

⁷² What Is the Social Security Retirement Age?" *National Academy of Social Insurance*, Accessed April 26, 2015, <http://www.nasi.org/learn/socialsecurity/retirement-age>.

⁷³ Ibid.

delving deeper into this argument, it is crucial to consider the distribution of life expectancy in the context of race and class. Although this paper does not examine these factors in detail, their impact should be noted.

c. Alternating COLA

The cost-of-living adjustment determines Social Security benefits. At face value, this appears to be a productive strategy because it adjusts for inflation. However, the cost-of-living adjustment (COLA) often underestimates the extent to which consumers change their spending habits in relation to price level changes and overestimated inflation.⁷⁴ During the 1990s, concerns arose that the index was not representative and during a 1996 congressional testimony, Federal Reserve Chairman at the time, Alan Greenspan, urged Congress to examine this further.

Although little can be done to remedy the errors of the past, greater efforts should be made in the future to ensure that the indexing of spending and tax programs accurately reflects trends in the cost of living. In that regard, concerns have been raised that, for a variety of reasons, that the official CPI may currently be overstating the increase in the true cost of living by perhaps 0.5 percent to 1.5 percent per year. The overstatement may be a little less for retirees, whose spending patterns differ from those of younger age groups and who are the main recipients of indexed federal benefits. But even for this group, an accurate estimate of their cost of living doubtless remains significant. Thus, when the Congress reviews the methods of indexing

⁷⁴ Danielle, Kurtzleben, 5 Ways to Reform Social Security," 2011.

spending programs and taxes, attention should be given to such biases in the price indexes that are used.

As a result, President Obama has urged in recent years for a chained consumer price index (CPI), which will correct for these biases. It does so by assuming that consumers will substitute what they usually buy with a similar lower priced item. Chained CPI is also expected to grow at a slower rate than the current CPI measure, thus reducing overall social security benefits to its recipients. The Congressional Budget Office estimated in 2013 that the switch to chained CPI would reduce deficits by \$233 billion over a decade.⁷⁵

d. Immigration

Proponents have argued that relaxing immigration laws can lead to increased solvency of Social Security. This premise rests on the idea that more workers translate into a greater number of taxpayers who will contribute to the system. The role of immigration in addressing the solvency of Social Security will be addressed below.

e. Privatization

Privatizing Social Security has been advocated by predominantly conservatives. In 2005, President Bush proposed a plan that would enable individuals under the age of 55, or those born after 1949, to participate in the creation of individual investment accounts. Although the current Thrift Savings Plan permits workers to deposit a

⁷⁵ Jeanne, Sahadi, "Bye-bye Chained CPI: Obama Drops Controversial Social Security Proposal," *CNNMoney*.

portion of their paycheck in five diverse investment funds, this plan would extend the same security, choice, and ownership to young Americans. Yet, this is inherently problematic for three reasons: 1) it diverts a large fraction of payroll taxes into private accounts, 2) it encourages government borrowing to sustain current benefits, and 3) it makes significant cuts in benefit payments for future retirees, with the assumption that income in their private accounts will make up for it.⁷⁶ Thus, such a framework also assumes young Americans of all races and genders have an equal playing field on how to invest wisely.

iv. Recommendation

My policy recommendation is two-fold: a) relax immigration laws to highly specialized immigrants on H-1B visas and b) raise the retirement age for the current generation to sixty-nine with early benefits available at age sixty-three.

Immigration has been one of the most contentious topics in United States policy debates in the last decade. Countries are rapidly experiencing a brain drain while U.S. citizens argue that foreign employees are occupying jobs that should be reserved for domestic citizens. Such arguments are not grounded in adequate data, and hence the United States federal government should restructure its immigration laws to filter for highly skilled workers. With time, in six or more years immigrants can work towards sponsorship of a green card. In addressing the short-term insolvency of Social Security, individuals holding an H-1B work visa should pay a higher payroll tax rate than domestic employees. This is justified in terms of an equal exchange: foreigners

⁷⁶Patrick, Martin, "World Socialist Web Site." *Facts and Myths about Bush's Plan for Social Security Privatization*.

will make money that will have more worth, or greater purchasing power, in their respective countries, and thus in exchange should pay a higher social security payroll tax rate even though many will not benefit from the system.

Second, raising the retirement age for the current generation can contribute to the long-term solvency of Social Security. An increase of the retirement age to seventy from 2023 to 2069 would decrease benefits by twenty-one percent and reduce Social Security financing by approximately twenty-five percent.⁷⁷ However, an increase in the retirement age to sixty-nine for the current generation born after 1980 serves as a starting point in addressing the deficiencies of Social Security. A raise of the retirement age to sixty-nine as opposed to seventy is grounded in the idea that there has been increased life expectancy; we must analyze the racial groups and socioeconomic statuses that experience a longer lifespan. Additionally, the retirement age to withdraw partial [seventy-five percent] benefits should be increased to age sixty-three. This value is based on current benefit amounts according to age (see Appendix). Therefore, both opening immigration laws to admit a greater number of white-collar workers and raising the retirement age to sixty-nine prove as viable options that could not only contribute to the solvency of Social Security in the short-term but its long-term sustainability as well.

⁷⁷ Thompson, Derek. "9 Ways to Fix Social Security." The Atlantic.

V. Conclusion: Lessons for Policy Implementation

In enacting social insurance and public assistance programs, policymakers must strike the balance between addressing the issue of poverty versus the issue of dependency. At the crux of the Social Security debate are the underpinnings of a greater question: why should we, as a society, care about the old, disabled, and those living in extreme poverty in our nation? In addressing this deeply divisive issue, there is no clear-cut solution.

The development of the welfare state furthered the expectation of the extent to which the federal government should provide for the poor. With the creation of government assistance programs, the implementation of Social Security has been the most successful in alleviating poverty, particularly in the elderly population. Maintenance of this program is pivotal as its universality in benefits appeals to the masses and therefore achieves its policy outcome. The perception of poverty in the United States is a hindrance when tackling social welfare policies. The failure of the Supreme Court to recognize economic security as a fundamental constitutional right and public support to provide for the vulnerable, without paying higher taxes, produces a dichotomy difficult to tame. A deep understanding of the approaches and metrics used in examining poverty is thus crucial to the effectiveness of welfare programs.

Ultimately, the success of Social Security has rendered it crucial to tackle methods to maintain its solvency. The most promising involve relaxing immigration laws to highly-skilled workers and raising the retirement age for the rising generation. It is therefore evident that Social Security is essential to the vitality of American society.

Appendix

Monthly Social Security benefit

(based on a hypothetical worker's "full retirement" benefit of \$1,000 at age 66)

Age you start	62	63	64	65	66	67	68	69	70
Monthly benefit	\$750	\$800	\$866	\$933	\$1,000	\$1,080	\$1,160	\$1,240	\$1,320

Source: Social Security Administration.

How Social Security payments can change depending on when you start

(based on a hypothetical worker's "full retirement" benefit of \$2,500 at age 67)

Age you start	Monthly payment	Total payments by age 75	Total payments by age 90
62 (earliest possible)	\$1,750	\$273,000	\$588,000
67 (full retirement age)	\$2,500	\$240,000	\$690,000
70 (latest possible)	\$3,100	\$186,000	\$744,000

Note: Total benefits received depend on the retiree's lifespan.

Source: Vanguard.

The chart below shows the percentage of the total allowable monthly Social Security benefit you could receive based on when you begin.

Birth year	Full retirement						
	age	62	63	64	65	66	67
Before 1938	65	80.0%	86.7%	93.3%	100.0%	106.5%	111.0%– 113.0%
1938	65 and 2 months	79.2%	85.6%	92.2%	98.9%	105.4%	111.9%
1939	65 and 4 months	78.3%	84.4%	91.1%	97.8%	104.7%	111.7%
1940	65 and 6 months	77.5%	83.3%	90.0%	96.7%	103.5%	110.5%
1941	65 and 8 months	76.7%	82.2%	88.9%	95.6%	102.5%	110.0%
1942	65 and 10 months	75.8%	81.1%	87.8%	94.4%	101.3%	108.8%
1943–54	66	75.0%	80.0%	86.7%	93.3%	100.0%	108.0%
1955	66 and 2 months	74.2%	79.2%	85.6%	92.2%	98.9%	106.7%
1956	66 and 4 months	73.3%	78.3%	84.4%	91.1%	97.8%	105.3%
1957	66 and 6 months	72.5%	77.5%	83.3%	90.0%	96.7%	104.0%
1958	66 and 8 months	71.7%	76.7%	82.2%	88.9%	95.6%	102.7%
1959	66 and 10 months	70.8%	75.8%	81.1%	87.8%	94.4%	101.3%
1960 and after	67	70.0%	75.0%	80.0%	86.7%	93.3%	100.0%

Source: American Academy of Actuaries.

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