

# Is Poverty Necessary?

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AT THE PRESENT time there is in the United States greater and greater awareness that the existence of poverty in the midst of affluence must not be tolerated and acknowledgment that the solutions to the problems of poverty lie within our grasp. These ideas are, of course, far from new.

Twenty-three years ago, Lord Beveridge in his famous report on the social insurances put forth the proposition that the abolition of want "was easily within the economic resources of the community." "Want," he said, "is a needless scandal due to not taking the trouble to prevent it."

From the standpoint of economic capacity this statement was indisputable when it was made. And its truth is, of course, even more obvious in the United States today than in England in 1942.

Our situation in this respect is unique in the history of the world. Poverty in the past has been basically the result of the fact that there was not enough to go around. This is still the situation in most of Africa, Asia, and South America. The great majority of the people living in those areas are necessarily poor and must remain so until there is a major increase in the per capita production of goods and services. In the underdeveloped countries, in which two-thirds of the world's population lives, no welfare or social security program could overcome the hard fact that there just isn't enough to go around. By contrast, today it can be taken as a fact that the abolition of want in the United States is no longer a problem of economic capacity.

We have the greatest economic capacity, by far, in the history of the world. In fact, production per worker has increased so fast as to cause its own problems. Today, largely because of new technology, we produce more than three times as much per worker in a 40-hour week as our grandparents did working 70 hours a week. We have compressed into a hundred years increases in productivity that go beyond the accumulated increases of all the thousands of years of man's previous economic activity.

And we now stand on the threshold of a new

technological revolution. The systematic application of scientific method to problems of production, as in automation, is just beginning. The automated factory, where a continuous process is controlled and directed by the machine, is already a reality in some industries, such as petroleum refining, and its use will most certainly become widespread. Electronic direction of machine production and even of assembly operations will be given much wider application. The effect of greater and greater application of scientific method to problems of production will almost certainly be to surpass considerably the productivity increases that we have known up to now.

Extremely conservative projections of what has been happening in industry lead to almost unbelievable conclusions. If we take not the rate of productivity increases that seems likely to result from the new approach to problems of production but instead merely the average rate over the past 100 years, our grandchildren will be able to produce in 1 day as much as we do in a 40-hour week. And they will be able to produce in 1 day what it took our grandparents 3 weeks of 70 hours each to produce.

This development may be good or bad in terms of the total problem of human adjustment. It certainly should dispose of any question of whether we have the capacity to produce enough to go around.

## Current Production Can Meet the Needs of the Poor

For the purpose of demonstrating the Beveridge thesis—that the abolition of want is easily within the economic resources of the community—one does not have to rely on the prospects of improvement in productivity. The Council of Economic Advisers in its 1965 report to President Johnson has estimated that full use of idle plant and manpower would increase total output in the United States by \$25-\$30 billion and would increase the supply of goods and services for consumers by close to \$20 billion. The aggregate income of people who are now

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counted as poor falls short of their estimated minimum requirements by not much more than half this amount—about \$11.5 billion.

The age-old economic problem, then, of producing enough to meet needs has shifted in this country to the problem of making sure that all parts of the population have a chance to work and earn adequate incomes when they are able to work and also have continuing income when work is not possible, so that all may have a fair share of what we can produce.

Is poverty a “needless scandal,” as Beveridge said, “due to not taking the trouble to prevent it?” In large part, it is. But to abolish poverty is going to take a lot of trouble. It isn’t going to be easy, just because we have the economic capacity to do so. Actually, concentrating on economic capacity results in great oversimplification of the problem.

The problem of poverty is complex. Economic capacity is, of course, the prime prerequisite, but even with the economic capacity it is still going to take the Nation’s best effort to fully utilize that capacity and to organize it in such a way that everyone has the opportunity to participate in the new prosperity.

One part of the problem of poverty, fortunately a major part, can be cured relatively easily in our prosperous country and without major changes in our system of economic values. We know how to do it; the institutions are at hand. What we need to do is to build on them. But another part of the problem is not easy of solution and will require many new and varied approaches.

### **Social Insurance Helps Prevent Poverty**

Now what does all this mean—what is the easy part and what is the difficult part? The easy part of poverty to get rid of in a prosperous and successful economy is that which can be prevented by insurance—social insurance. Economic insecurity in a money economy arises in considerable part when income from work is interrupted, generally as a result of unemployment, retirement in old age, death of the family breadwinner, or disability, either short-term or long-term.

No matter how high a level of production an economy has, poverty will persist unless there are institutional arrangements for making sure that

all have the continuing right to share in consumption when income from earnings stops. This is the principal role of social insurance—to provide a partial replacement of work income during the time when a person is out of work for specified causes. It is thus “income insurance.” As a man works in the United States today, he earns not only wages but insurance protection against the loss of those wages. When work income is interrupted, social insurance partially replaces it just as other forms of insurance replace part or all of the value of the insured object.

Such an insurance program redistributes income from all contributors to those who at any one time suffer a loss. Also, for the individual, an income insurance program serves to redistribute income over time, from when he is earning to when he is not earning.

The genius of the social insurance approach is that the protection is earned by work and contributions. Social insurance is based on the concept that security for the individual should, to the extent possible, grow out of his own work. A worker’s entitlement to benefits and the amount of his benefit and that of his family are related to a record of his earnings.

Basing eligibility on a demonstration of work and providing variable benefits related to the level of a worker’s earnings fit in with the general system of economic incentives. Furthermore, since benefits are paid regardless of nonwork income—that is, income from savings, pensions, investments, and the like—the worker is encouraged to supplement the basic protection afforded by his social insurance benefit with whatever additional protection he can afford. Social insurance as a way of providing economic security is an important social invention. Need is prevented as a result of the work and contributions of the individual himself and the contributions of his employer. This approach supports our generally accepted system of economic values and incentives and avoids the disputes that arise over alternative methods that seek to guarantee adequate income based either directly on a test of need or by making payments to a defined group, such as an age category, but without regard to the participation or effort of the individual. Because of its adherence to a conservative value system, social insurance has the stability that comes from widespread appeal and acceptance.

Thus, we have at hand a widely applicable and widely acceptable instrument. Its objective is not solely the abolition of poverty, but in its operation it does prevent poverty. It can be used much more effectively for this purpose.

The Social Security Administration has recently tried to measure the number of American poor. The measure of poverty used takes into account varying age and family composition and whether the family lives in the city or in rural areas. The measure is a strict one, and it sets the level for a family made up of an adult couple and two children living in the city at \$3,100. In the country this same family would not be considered poor if it had an annual income above \$2,200. When this poverty index is applied to the United States population, it is found that about 35 million persons—15 million children and 20 million adults—or close to one-fifth of the population are living below the poverty line. These are people who essentially must choose between enough to eat and some other basic necessity, such as adequate housing.

Perhaps a third to a half of the poverty that exists in the United States could be prevented by the improvement and broader application of the social insurance principle.

### **Need To Improve Social Insurance**

Congress voted great improvements in the Federal social security program this year. The increase for all benefits will amount to \$6 billion for a full year of operation. For a retired worker the value of the improvements will average about \$20 a month, including, of course, the value of health insurance protection as well as the cash benefit increases. This is progress indeed. The legislation makes many significant improvements in social security. It extends the scope of the disability program, provides for a general increase in cash benefits, makes benefits available to children up to age 22 if they are attending school, liberalizes the retirement test, and makes many other improvements.

*Health insurance.*—The major addition to the social security program, of course, is health insurance protection for the aged. The law provides for two health insurance programs. One insures

primarily against the cost of hospitalization in old age; it follows traditional social insurance principles. The other provides protection primarily against the cost of doctors' bills for those of the aged who elect to take part in the plan and pay half the cost.

The idea behind the basic health insurance program is simple. It is to add hospital insurance protection to the cash retirement incomes that workers are building under social security and to do it in the same way—that is, by having them pay into the plan while working so that they will have protection after age 65 without further payment.

This plan of paying while one works, with protection provided after age 65 without further contribution, embodies what is a necessary principle to follow for the major part of health insurance protection just as it is for the rest of the social security program. Only through the use of such a plan can health insurance for most of the aged really work. The reason is that since older persons have much more need of expensive care than do younger men and women, premiums paid in old age have to be high to cover the cost, and yet the years of retirement are the very years when incomes are low. This set of facts explains why private insurance has not been able to do an adequate job of providing protection. Between the commercial companies and Blue Cross a fairly good job is being done for younger employed persons through group policies, but the protection for retired workers is generally inadequate or nonexistent. Most older persons simply cannot pay what it costs.

For reasonably comprehensive health protection, an aged couple has to pay about \$35 a month. For half the aged couples in the United States, a health insurance premium of this magnitude would be more than 15 percent of their income. The combined health insurance plan provided for in the 1965 amendments makes available reasonably comprehensive protection and will cost the average worker about \$2 a month while he is still earning and \$3 a month after he retires—\$6 for himself and his wife.

This measure is solely a mechanism for the payment of bills, like Blue Cross. The Government will not provide services. The new program is not, of course, socialized medicine. It is solely a way of helping the aged meet part of the costs of medical care through advance planning—as

part of the advance planning for retirement already operating under social security.

Not all of this additional protection is for the very poor. Millions with incomes above the line of extreme poverty know insecurity, and a major function of social security—and private pension plans and private insurance and private savings as well—is to prevent these millions from becoming poor. In fact, social security's contribution to the solution of the problem of poverty is in considerable part a byproduct of doing much more—supplying a base on which practically everyone now builds income security—the low-income and middle-income groups and the rich alike.

*Unemployment insurance.*—Other parts of social insurance can also be used much more effectively to fight insecurity and poverty. In unemployment insurance, for example, how can the percentage of wage-loss replacement be increased—a result greatly needed on both humanitarian and economic grounds?

At the present time, probably not more than 20 percent of all wage loss from total unemployment, and about one-third of all wage loss from unemployment in covered work, is replaced by unemployment insurance. These low percentages are largely the result of unrealistically low maximum limits on benefits in relation to average earnings. Although State benefit formulas generally provide for replacement of about 50 percent of average weekly earnings for lower-paid workers, the maximums result in a far lower percentage for those earning above-average wages.

It is important to replace in purchasing power a higher percentage of the income lost through unemployment—not only on humanitarian grounds but on broad economic grounds. Unemployment insurance can serve well in helping to maintain prosperity because automatically, and without the need for any new decisions, the benefits retard the contraction of consumption in periods of declining employment. It is therefore doubly important to increase the replacement of wages lost through unemployment—important for the individual and important for the economy.

President Johnson has asked Congress to strengthen the unemployment insurance system. He has called for improvements in the program that would assure adequate payments for a fixed

duration for most regular workers and provide a permanent program of extended benefits for the long-term unemployed with substantial work histories.

### **Need To Improve the Employment Picture**

Social insurance can do only part of the job. To quote Lord Beveridge again, "Social security is a job when you can work—a benefit when you can't." A job at wages high enough to adequately support one's dependents is fundamental to economic security. And here we have a more difficult problem than the problems that can be solved by improvements in social insurance.

Increasingly it is becoming clear that with advances in technology, jobs are going to be scarce for people with little or no skills and those who are illiterate or poorly educated. Employment is also, of course, the basic problem for those living in areas of the country that are declining economically and for those who late in life find their skills made obsolete by changes in methods of production. For those with little marketable skill, unemployment is not the only problem. When they can get and hold a job they may nevertheless be unable to provide their families with a reasonably adequate standard of living. Of the 15 million children—20 percent of all children in the country—who are in families below the poverty line, one-third are in families headed by a man working full time throughout the year.

*Work conditions.*—To meet the need, the President has recommended extension of wage and hour protection under the Fair Labor Standards Act to an additional 4½ million workers, restriction of excessive overtime work through the payment of double time for overtime, and periodic increases in the minimum wage level as average wages rise.

As indicated above, for the country as a whole there is great economic progress ahead—a situation in which we will be able to produce more and more goods and services with less work—but this very progress creates dislocation and, at least temporarily, unemployment for many individuals. How to absorb these workers into new jobs is a problem of the first magnitude. If we are to get rid of poverty, we must find out how to minimize the problems of dislocation due to

industrial change, and how to prevent economic inadequacy, particularly among young people, through better training and education and other services. And very important, we must eradicate race prejudice in employment policies so that all can participate in the general prosperity. A Negro in the United States today has more than three times the chance to be poor than a white person does and twice the chance to be unemployed.

*Problems for the young.*—Unemployment is a serious hazard whenever it strikes, but is perhaps at its most serious when it begins early in life. The difficulty in getting and holding a job experienced upon entry into the labor force not only affects current economic status but may seriously alter and warp basic attitudes towards work. The potential harm is magnified when we realize that it is the nonwhite youngsters and the youngsters with less than a high school education—whose chances for moving up the economic ladder have been slim in any case—who are most likely to meet rebuffs in looking for a job.

The teenage unemployment rate, according to a report on manpower recently released by the Department of Labor,<sup>1</sup> is the highest of any age group. Close to a million young people aged 14–19 were unemployed each month during 1964; they represented about one-seventh of the total number in this age group in the labor force. Currently the rate remains about as high as at any time in the postwar period.

A substantial number of the jobless teenagers are in school most of the time and are looking only for part-time work, but the majority of unemployed 16- to 19-year-olds are not attending school. And unemployment among the youngsters in this age group stands at the same high rate—almost 16 percent—whether or not they are in school.

For the Negro youth, the situation was even worse. To quote from the Department of Labor report, “When the employment disabilities associated with being young and nonwhite are combined, the result is an unemployment rate that is an affront to a concerned society. Despite a slight improvement during the year, 23 percent (104,000) of nonwhite teenage boys and 31 per-

cent (87,000) of nonwhite teenage girls in the labor force were unemployed in 1964.”

Among teenagers in poor families the situation is especially acute, first because they are less likely to have the credentials of a high school diploma, and second because a larger proportion than among children of families in more fortunate circumstances do not even report themselves as in the labor force and available for work.

These are the facts that underlie a whole spectrum of current social problems, from family responsibilities assumed too early to such anti-social behavior as juvenile delinquency. It is a shocking and unnecessary waste of human resources and, left unremedied, the precursor of the poverty to plague us in the years ahead. It is at these problems of youth that much of our effort in the war on poverty is directed.

This situation must be changed if we are to make a reality of America's promise to provide equality of opportunity and if we are to end the plague of poverty.

### **Problems of Technological Advance**

It is a great mistake to think that poverty arises only from economic failure; it results, ironically, also from economic progress, as is clear from the problem of worker dislocation.

An example of the dislocation resulting from progress is the technological revolution in agriculture. There are few places where technological advance has been any greater than on the farm. Productivity per worker has increased fantastically. In 1900 more than one-third of all gainful workers were needed to raise food for the rest of us: today only about 7 percent of the paid labor force works in agriculture. So people have been leaving the farm in great numbers, and one-fourth to one-third of those who have stayed are living on very low incomes because the way they farm is not competitive with the techniques used by the bigger, better-equipped farms. Many of those who leave the farm and come to the city are ill-equipped for jobs in industry and unused to life in the city. As a result, they may find less rather than more security. We have, then, as one consequence of improved technology in agriculture a problem of rural poverty on the one hand,

<sup>1</sup> *Manpower Report of the President and A Report on Manpower Requirements, Resources, Utilization, and Training by the United States Department of Labor*, March 1965.

and on the other hand a new problem of poverty among rural migrants to the city.

At the same time the city is finding it more difficult to cope with the problems created by the influx of low-income people. Not only are the poor coming in from rural areas, but the better-off are moving out. Today there are about as many persons living in the suburbs surrounding the 25 largest cities as in the central cities themselves. Low-income families, nonwhite families, and other minority groups concentrate in the cities proper. As a group, these are the poorer, the most disadvantaged. This concentration creates social problems that are difficult and expensive to solve.

What can be done in this difficult area of reducing the impact of dislocation and both curing and preventing the poverty that arises?

### **Long-Term Solutions Needed for Removing Causes of Poverty**

These, then, are some of the difficulties that go beyond the matter of the Nation's economic capacity and the insurance of work income. These are some of the residual problems that cause poverty in a country that has great economic capacity—problems that would remain even if social insurance were doing all it is designed to do.

Correction of the fundamental causes of poverty requires long-term actions. The way out lies in the prevention of illiteracy, improvements in educational and health facilities, new financial sources for services supplied by the city, manpower retraining and relocation, special projects directed at the young among the poor—such as the Job Corps and other programs taking shape under the Office of Economic Opportunity—and advance planning for the people involved as technology changes.

The Administration's programs for education and for dealing in a more coordinated way with the multiple problems of our cities are of basic importance. These long-range and fundamental programs are the only way over time to prevent poverty from arising.

Obviously underlying the whole question is the full use and expansion of our industrial capacity. If machinery and able manpower are idle, there is a lowering of the volume of goods and

services, and poverty will spread because there will not be enough to go around even though we have the theoretical capacity to produce enough. Thus among the most fundamental weapons in the war on poverty is the pursuit of broad economic and fiscal policies that stimulate continued economic prosperity. The tax cut of last year and the cut in the excise taxes this year, no less than the Economic Opportunity Act, have been part of the President's war on poverty.

In the nationwide effort that is needed in the prevention of poverty, our weapons are maintenance of a prosperous economy, a whole series of measures designed to improve the job capacity and adaptability of people, and broad application of social insurance to assure income for those who cannot work.

### **Some Urgent Problems**

In meeting the problem of poverty all is not prevention and rehabilitation. It would be reckless indeed to suggest that the long-range steps now being taken—the further expansion of social insurance, for example—are going to reduce welfare rolls drastically and quickly. A large percentage of the Nation's 8 million assistance recipients will continue to be unemployable because they are too old, too disabled, or too young to work or because they are mothers caring for young children. In the long run, if social insurance is made more effective and our other efforts in the war on poverty succeed, the group receiving assistance should decline substantially. In the meantime, however, there is no way for most people in this group to become employable, and we must face up to the fact that they will continue to require assistance.

Particularly difficult of solution is the problem of a growing number of children and mothers in need because of illegitimacy and desertion. Welfare is the only way we now have of meeting the needs of these children. Because of concern with measures of prevention, we must not neglect to meet the bread-and-butter needs of these children who are poor now. Services are not a substitute for adequate welfare allowances for food, clothing, and shelter. Social services cannot do much if a child and his mother are hungry and cold.

Beveridge was right. Want is a needless scandal

in our society. But great effort will be needed to prevent it. To prevent poverty, we need a nationwide commitment behind the President's war on poverty.

If we are to be successful in ending poverty, leaders in public and private life must give this issue a much higher priority on the list of urgent things to be done than they have for many a day. When so many people are well-off, it is hard for most of us to believe in the hunger of others. Too often in recent years there has been the comfortable feeling that a successful economy has solved most of the problem of poverty and that the rest will take care of itself. This is not true. There are 35 million persons in the United States today living below the poverty line. It is going to take widespread public indignation to do the complete job. And it is going to take a high degree of cooperation, of imaginative working together, by private and public agencies—hard and dedicated work by all of us.

In his Economic Report this year, President Johnson said:

Perennial challenges to economic policy are not fully mastered: but we are well on our way to their solution.

As increasingly we do master them, economic policy can more than ever become the servant of our quest to make American society not only prosperous but progressive, not only affluent but humane, offering not only higher incomes but wider opportunities, its people enjoying not only full employment but fuller lives.

Having had the vision of a country without want and seen the possibility, we cannot fail to devote our best efforts towards attaining that vision. A hundred and eighty years ago we undertook to "secure the blessings of liberty to ourselves and our posterity." The challenge to us now is, while preserving that liberty, to secure the blessings of abundance to all our people. The fact that today we have the capacity to abolish poverty means that we must.

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