

A government that robs Peter to pay Paul can always depend on the support of Paul
George Bernard Shaw

I. Social Security Act (1935)

1. Act includes three major programs:

A. **Old-Age, Survivors, and Disability Insurance**—intended to ensure that seniors are not destitute

1) FICA (Federal Insurance Contributions Act) Tax on earned income

a. 2013: OASDI = 6.2% up to \$113,700 / Medicare = 1.45% / T = 7.65%

Self-employed: OASDI = 12.4% / Medicare = 2.9% / T = 15.3%

Additional 0.9% Medicare tax for singles earning \$200,000 or more and couples earning \$250,000 or more

b. Taxes go to pay current retirees, although this has produced a surplus in the trust fund, but surplus condition will end around 2017

c. Problem is that Congress has spent most, perhaps all, of the trust-fund money

2) Crisis arises because there are more older people relative to working age people

a. Baby-boom generation (1946-1964)

b. People now live longer

c. Low birth rate

d. In addition, benefits have increased, especially in 1971

e. Ratio of workers to beneficiaries has dropped from 16:1 to almost 2:1

- 3) My expected annual benefit = \$29,424 if I retire at age 66 = \$9,800 per worker
- 4) Possible fixes for Social Security
 - a. Reduce benefits for retirees / reduce benefits for upper but not lower income retirees
 - b. Means-test Social Security
 - c. Adjust the COLA to reflect true inflation because CPI may overstate inflation
 - d. Increase taxation of benefits, with upper income retirees paying more
 - e. Increase the retirement age, which was set at 65 in 1935 / In 1983, age was increased by steps to 66 for my age group and then to 67 for people born in 1960 or later / Medicare is still 65
 - a) Could negatively affect low-income and minority workers who do more manual labor and tend to live less long
 - b) Could increase disability claims by older workers not yet old enough for SS
 - f. Raise or eliminate the earnings cap on the payroll tax, though this would destroy link between the tax and benefits
 - g. Increase the payroll tax rate / One estimate is that this would require more than a 36% tax rate to sustain Social Security and Medicare
 - h. Preserve a limited estate tax and dedicate it to Social Security
 - i. Partly or entirely privatize Social Security
 - j. Kill people at age 80 or 85 / Otherwise, encourage death exit

B. Unemployment Insurance

- 1) Current unemployment (March 2013) = 7.6% but 13.8% U6 rate.
 - a. Rates for adult men (7.1%), adult women (7.0%), teenagers (25.1%), whites (6.8%), blacks (13.8%), Hispanics (9.6%), and Asians (5.0%)
- 2) Federal-state program of financial assistance--usually 26 weeks--for people unemployed through no fault of their own as determined under state law and who meet other state eligibility requirements
- 3) Benefits are based on a percentage of an individual's earnings over a recent 52- week period - up to a state maximum amount.
- 4) All but three states tax employers only
- 5) FUTA tax rate is 6.2% of the first \$7,000 of taxable wages of each employee during a calendar year. Employers who pay the state unemployment tax, on a timely basis, receive an offset credit of up to 5.4% regardless of the rate of tax they pay the state. Therefore, the net FUTA tax is generally 0.8% (6.2% - 5.4%), for a maximum FUTA tax of \$56.00 per employee, per year ($.008 \times \$7,000 = \56.00).

C. Welfare—Aid to Families with Dependent Children--AFDC (1935-1997)

- 1) A federal grant program that enabled states to make cash welfare payments for needy children who had been deprived of parental support or care because their father or mother was absent from the home, incapacitated, deceased, or unemployed. States defined "need," set benefit levels, established (within federal limits) income and resource limits, and administered the program. States were entitled to unlimited federal reimbursements of benefit payments at "matching" rates that were inversely related to state per capita income (averaging about 50%). States had to provide aid to all persons eligible under federal law and whose income and resources were within state-set limits.
- 2) In 1935, most single mothers were widows; supporting them was not viewed as subsidizing sin. Most Americans thought that a home needed a

full-time homemaker. AFDC intended to help widows retain custody of their children instead of breaking up their family when their husbands died.

- 3) Cost about \$24 billion in 1996. Peak real-dollar spending was in 1976.
- 4) In 1996, fewer than 2% of beneficiaries were widows; some 60% had never been married to their child's other parent.
- 5) Rising welfare rolls to about 4.8 million families on AFDC in 1996
- 6) Criticisms of AFDC
 - a. Sexist assumption that women belong at home with children.
 - b. Resentment from working mothers. About two-thirds of all mothers were working by 1996. Hence, supporters of AFDC could not claim that working would unduly damage children.
 - c. Discouraged work and also encouraged dishonesty because recipients hid off-the-books income.
 - d. Dependency—long spells and inter-generational (e.g., a 16-year-old girl gives birth to a daughter; that daughter also gives birth to a daughter at age 16, making her mother a grandmother at age 32; the granddaughter gives birth to a daughter at age 16, making her mother a grandmother at age 32 and making her grandmother a great-grandmother at age 48).
 - e. Man-in-the-house rules plus welfare income and no-fault divorce discouraged marriage.
 - f. Increased unwed motherhood, plus less excuses for accidents because of availability of birth control and abortion.
 - g. Encouraged recipients to have more children to receive higher welfare payments.
 - h. Encouraged childbirth among genetically deficient segments of the population, resulting in reverse evolution (dysgenic effect).
 - i. Corruption in AFDC--image of the welfare queen.

j. Mothers used money for drugs and other personal benefits rather than for children. Note also “Mother’s Day” problem.

k. AFDC seen as a Democratic program.

l. AFDC seen as a mostly black program, even though only about 40% of recipients were black.

m. Recipients could also benefit from Food Stamps, Medicaid, housing assistance, and other welfare programs.

6) Personal Responsibility and Work Opportunity Reconciliation Act of 1996

a. Temporary Assistance for Needy Families (TANF) block grant

D. Supplemental Security Income (SSI) for needy aged, blind, and disabled people

E. Medicare—enacted 1965

1) 2012 = \$556 billion (15% of federal budget) for 50 million recipients

2) Expected to climb to 77 million recipients by 2031

F. Medicaid—enacted 1965

1) 2010: Federal = \$263.4 billion / State = \$125.7 billion for 55.7 million beneficiaries

G. Supplemental Security Income (SSI) enacted 1974

1) 2011 = \$48 billion for 8 million beneficiaries

2) Up to \$698/month for single person and \$1,011/month for couple

H. State Children’s Health Insurance Program (SCHIP)

I. School Lunch and Breakfast Programs

J. WIC (Special Supplemental Nutrition Program for Women, Infants, and Children)

K. Child and Adult Care Food Program (breakfasts, lunches, dinners, and snacks in non- residential child-care centers, such as homeless shelters and Head Start sites)

L. Housing Assistance

M. Low-Income Energy Assistance Program

N. Veterans' Benefits

II. Food Stamp Program (re-named Supplemental Nutrition Assistance Program in 2008).

1. Precedents go back to 1939-1943 stamp program and to surplus food distribution

2. Food stamps heavily advocated by farmers and others in food business.

3. Based on a study of data gathered in FY 2010

- 49% of all participant households have children (17 or younger), and 55% of those are single-parent households.
- 15% of all participant households have elderly (age 60 or over) members.
- 20% of all participant households have non-elderly disabled members.
- The average gross monthly income per food stamp household is \$731; The average net income is \$336.
- 36% of participants are White, 22% are African-American, 10% are Hispanic, 2% are Asian, 4% are Native American, and 19% are of unknown race or ethnicity.

4. Households can use SNAP to buy (a) breads and cereals, (2) fruits and vegetables, (3) meats, fish, and poultry, (4) dairy products, and (5) seeds and plants to produce food. SNAP cannot buy (1) alcoholic beverages and tobacco products, (2) household supplies, (3) soaps and paper products, (4) vitamins and medicines, (5) food eaten at a store, and (6) hot foods.

5. 2013, SNAP = \$74.6 billion for 47.7 million beneficiaries.
6. Average monthly benefit = \$132.44 per person in 2013 / 278.48 per household.

III. Earned Income Tax Credit (EITC)

1. Created in 1975 to offset payroll taxes paid by low-income workers with children
2. 2012: For claimants with three or more qualifying children, the maximum credit is \$5,891 / two children = \$5,236
3. Started with about 6 million recipients, but big expansions occurred in 1986 and 1993
4. In 2009, more than \$50 billion was transferred to 27 million recipient families
5. 2012: Maximum income limit is \$50,270 if married with three or more children.
6. Because EITC comes once a year, most recipients spend a portion immediately. Most buy durables rather than non-durable goods, with vehicles being a popular choice.
7. 26 states have an EITC