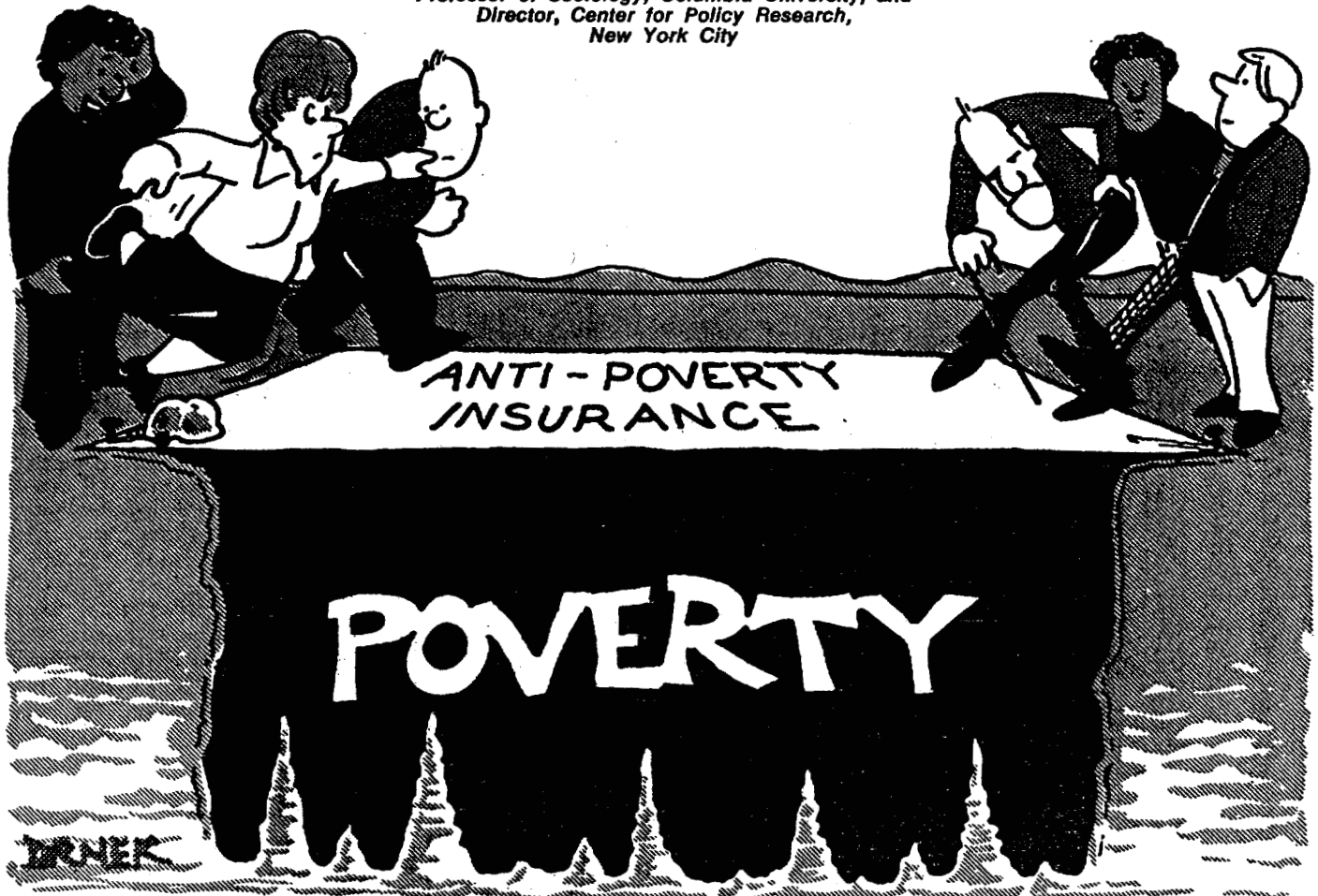


ANTI-POVERTY INSURANCE

Anti-poverty insurance can serve as a net under the non-poor
to keep them from falling into the pit of poverty

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MOST POLICY-MAKERS view poverty as akin to a stagnant pool, which may be slowly drained as each individual or family trapped there is helped to climb out. What this imagery and the policies it suggests disregard, however, is the fact that, of those who are poor in any particular year, *most* were not poor in the preceding year. In other words, at any given time, many of the poor are newly poor. According to an often-cited study, the "persistently poor" (defined as those who were poor during all five years studied) amount to only nine per cent of the total poverty population. Also, 35% of all Americans were poor during at least *one* of the five years counted.* (While these estimates are based on one study, and there are many complexities in defining and measuring poverty—in particular in view of the changing composition over the five-year period of the families included in the study—the figures are useful as crude indicators of the magnitude of the problem.)

The policy implication of these findings is that a major way to substantially reduce poverty is to focus on the problem of those not now in poverty, but likely to fall into it or back into it. Indeed, if Americans not now poor could be prevented from becoming poor, the poverty pool would rapidly shrink, thus greatly easing the task of existing and new anti-poverty programs.

Anti-poverty insurance offers one means of maintaining a net under the non-poor to keep them from falling into poverty. For a relatively small monthly premium, it can ensure that, if a person's income falls below a specified level, enough of the loss would be made up to keep the person above the poverty line. In a national poll we conducted in 1969, which needs repeating, we found enough persons who indicated they would subscribe to anti-poverty insurance to make the program *self-supporting* and thus in need of no public funds (or taxes on third parties). In this sense, anti-poverty insurance differs drastically from other methods of relieving the flow into poverty, such as higher Social Security payments, higher and longer unemployment benefits, higher minimum wages, and the negative income tax—any or all of which may be worthwhile in its own right, but would cost less if coordinated with anti-poverty insurance to reduce the burden. It is also not inflationary, unlike strong efforts to stimulate the economy, although these

are by far the most effective poverty-curbing measures.

To reiterate, anti-poverty insurance does *not* seek to replace other programs, but to supplement them and reduce the loads they must carry. The assumption here is that there are no cure-alls and fragmenting a problem and dealing with parts of it often works better than a wholesale one-front attack.

How anti-poverty insurance works

Persons currently on welfare need not fear that their benefits would be lost as a result of anti-poverty insurance. They would not be covered by it until after having made it out of poverty and off welfare, at which time they would be in danger of falling back again. At the same time, by reducing the influx of new poor to the welfare rolls, anti-poverty insurance would enable either provision of higher benefits to the smaller population of "persistently poor" at the current level of expenditure or reduction of total welfare expenditures without reducing individual benefits.

Anti-poverty insurance draws on a simple psychological principle—that insurance policies "pay off" even when they do not "pay out." That is, they pay off to *all* who subscribe and not just to the minority which actually draw financial benefits, because of the *psychic* income in their guarantee that, "whatever" may come, those insured will not have to be dependent on the mercy of their kin or on government ("welfare"). Our survey indicated such protection would have value to many Americans, but especially to the elderly and to the self-employed, farmers, small businessmen, etc., whose work requires taking financial risk without as many protections as salaried workers—especially civil servants—tend to enjoy.

For anti-poverty insurance to work, it would have to require that only persons currently not poor would be able to subscribe, that people would be eligible to join its rolls only at set times (say once a year), and that they would have to subscribe for a specified number of years (say four) before they could draw full benefits. The plan would make up for 50% of the loss of income below a specified level in order to maintain the motivation to work and a disincentive to "spend down," to reduce income from capital, a phenomenon encountered in Medicaid, where the public, in effect, pays for full maintenance once a person spends down to the poverty level.

Note that the insurance would make up the difference between the income a person had from any source (including

Social Security payments, etc.) and the established poverty level. As many poor have *some* income, the pay-out would often be lower than 50% of the full previous income.

The program might be administered by a specially created national insurance corporation, composed of a pool of private insurance companies (to distribute the risk). Thus, it would not create a new government bureaucracy and legislative bodies would not be able to increase benefits beyond those the premiums can sustain. Verification of claims could be accomplished through the same procedures used by the insurance industry for other claims, from auto theft to disability.

We do not now advocate introducing anti-poverty insurance here and now. Some additional market studies and an expeditious experiment in some select locations should first be undertaken. This is on the general principle that we do not know enough about most such new policy ideas to proceed without first conducting proper experimentation, while, at the same time, such experimentation should be done expeditiously (without search for perfection) so as not to delay policy-making unduly.

The role of government here is perceived as an initiator, source of research and development for the program, and stimulator—but not as a source of funds for, or administrator of, the program.

Forty million subscribers (assuming mandatory subscription of all non-poor) at \$10 a month for four years before rights to draw benefits are vested would provide \$19,200,000,000. This would allow the plan to carry, for one year, at \$3,000 a year, 6,400,000 families—or 1,600,000 for four years.

Voluntary subscription, assuming all those who indicated (in the survey we conducted in 1969) that they would definitely be interested (24.8%), half of those who indicated they would probably be interested (26.5%), and none of the others who indicated they might be interested—*i.e.*, a total of 38% of Americans—would yield, assuming a total population of 50,000,000 families, 19,000,000 subscribers, hence \$9,120,000,000 or coverage for 3,040,000 families for one year, or 760,000 for four years. Even if more pessimistic assumptions are made, anti-poverty insurance would still reduce the load on publicly financed services by 15% to 20%.

These projections do not include administrative costs (to be relatively low in view of the few requirements of the program) and provision for profit, to be either disallowed or set at a fixed rate, say six per cent.

* James N. Morgan, et al., *Five Thousand American Families*, Vol. I (Ann Arbor: University of Michigan Survey Research Center, 1974), p. 21.