CHALLENGE
January/February 1978
Vol. 20, No. 6, pp. 57-58

A129

AT HOME

Anti-Poverty Insurance

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 the University of Michigan's Survey Research Center study, *Five Thousand American Families,* the "persistently poor" (defined as those who were poor during all five years studied) amount to only 9 percent of the total poverty population. Also, 35 percent 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—particularly 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 implication of these findings for policy is that a major way to reduce poverty substantially 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 who are 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 will be made up to keep the person above the poverty line. In a national poll we conducted in 1969, which ought to be conducted again, 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 negative income tax, any or all of which may be worthwhile in their 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, though 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 that dealing with fragments of a problem often works better than a wholesale one-front attack.

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 they had climbed out of poverty and were 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 the government either to provide higher benefits to the smaller population of "persistently poor" at the current level of expenditure, or reduce 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 who 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 that 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 be able to subscribe; that people would be eligible to join its rolls only at set times (once a year, for example) and 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 percent 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) and the established poverty level. As many poor people have *some* income, the payout would often be lower than 50 percent 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 could sustain. Verification of claims could be accomplished through the same procedures used by the insurance industry for other claims.

Various projections can be made of the effects of this insurance. If there were mandatory subscription of all those who are not poor, 40 million subscribers at $10 a month for four years before rights to draw benefits are vested would provide $19.2 billion. 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.

Or there could be voluntary subscription, assuming the inclusion of all those who indicated in our 1969 survey that they would definitely be interested (24.8 percent), half of those who indicated they would probably be interested (26.5 percent), and none of the others who indicated they might be interested. The total would be 38 percent of Americans, and would yield—assuming a total population of 50 million families—19 million subscribers, hence $9.12 billion or coverage for 3,040,000 families for one year, or 760,000 for four years. Even if more pessimistic assumptions were made, anti-poverty insurance would still reduce the load on publicly financed services by 15 to 20 percent.

These projections do not include administrative costs (which would be relatively low in view of the few requirements of the program) and provision for profit, which would either be disallowed or set at a fixed rate, say 6 percent.

We do not 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 should be done on the general principle that we do not know enough about most such new policy ideas to proceed without first conducting proper experiments; at the same time such experimentation should be done promptly (without a search for perfection) so as not to delay policy-making unduly.

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

AMITAI ETZIONI
Professor of Sociology,
Columbia University and Director,
Center for Policy Research, Inc.