

THE UNEQUAL STATE OF AMERICA

THE UNDESERVING POOR

The American welfare state has grown, but so have the ranks of the poor. As the U.S. tries to focus help on those deemed most worthy, millions of adults are getting squeezed.

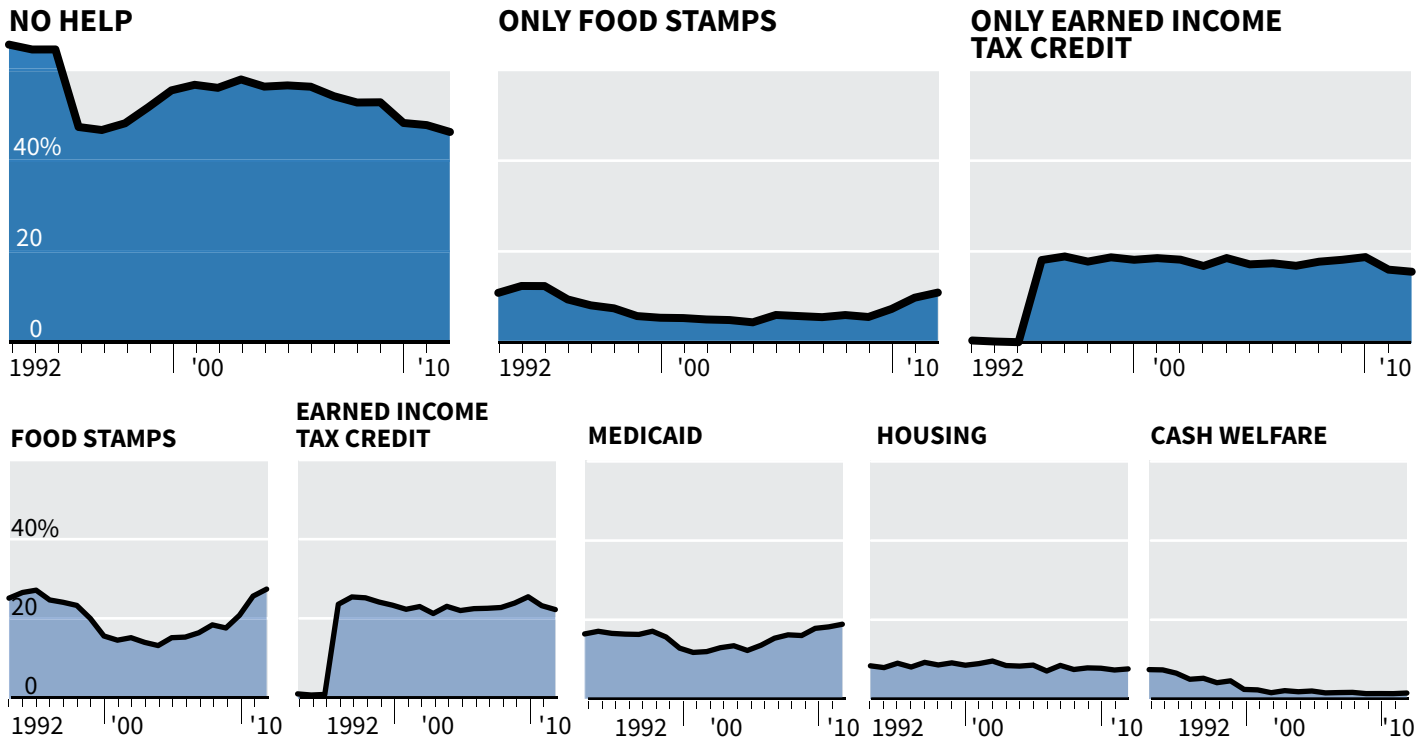
BY KRISTINA COOKE, DAVID ROHDE AND RYAN MCNEILL
INDIANAPOLIS, INDIANA, DECEMBER 20, 2012

NO HELP: Shaun
Case of Indiana.

REUTERS/AARON P.
BERNSTEIN

For able-bodied adults, limited help in lean times

Percentage of non-disabled, working-age adults in poverty with no children at home who received the following:



Source: Current Population Survey / Reuters analysis. Food stamps = Supplemental Nutrition Assistance Program. Cash Welfare = Temporary Assistance for Needy Families; Aid to Families With Dependent Children; other smaller programs, such as emergency assistance. Housing = rental subsidies or public housing

The U.S. federal government spends hundreds of billions of dollars a year on aid to the poor. There isn't enough to go around for Shaun Case.

The 34-year-old Indiana native has learning disabilities and endured a childhood of abuse. Relatives say he was thrown through a plate-glass window by his grandmother when he was a teen, leaving him with a permanently numb left hand. Social workers consider him well enough to work, though, and he never qualified for disability benefits.

So, in the past decade Case has scraped by in temporary jobs, never making more than \$10 an hour. Now, he's out of work again. He gets no unemployment benefits; he wasn't in his last gig long enough. He can't get Medicaid because he has no dependent children at home. Until October, his only help was \$200 a month in food

stamps. Because of a paperwork error, the government cut him off. With or without food stamps, he has to scrounge for cash, selling plasma at a blood center twice a week for \$30 a pop.

"What's out there for people like me?" said Case. "There's nothing."

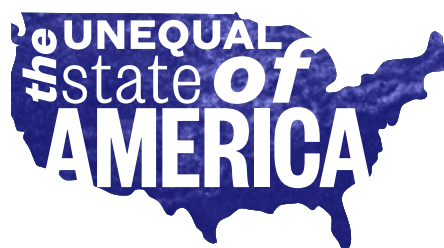
The reasons are complex, but it boils down to this: American society has decided that people like Shaun Case, the able-bodied poor, don't deserve much help. As a result, and despite record spending, a growing

number are falling through the gaps in America's patchwork of welfare programs.

Case is one of 12.2 million adults of working age, with no children at home, who were living below the poverty level in 2011. That's up nearly double from two decades ago. And of those, 5.6 million received no assistance from any of the major five federal programs, a Reuters analysis of Current Population Survey data found. That's the highest number since 1992, the first year for which comparable records are available. Then, there were 4.3 million unaided poor adults.

Another 1.4 million able-bodied adults received only food stamps, up from 732,000 in 1992. That program keeps people from going hungry, but doesn't help pay for other necessities such as rent, heat or dental care.

The population of unassisted poor adults



is growing at a time when the United States is grinding through a prolonged stretch of rising poverty and income inequality.

The number of Americans below the federal poverty level - \$22,350 a year for a family of four - hit 48 million in 2011, 17 million more than in 1989. Indiana has seen the second-largest increase in poverty of any state in that time, according to a Reuters analysis of Census data. Sixteen percent of the Hoosier State was poor in 2011, up from 11 percent.

The prime reason for the latest surge in the number of poor people has been the weak economy, not a stingy government. Antipoverty spending has actually increased overall.

Nationally, the federal government put a record \$506 billion last year into its five major means-tested programs for low-income, able-bodied Americans. Outlays on these programs - food stamps, Medicaid, cash welfare, housing assistance and tax credits - were up more than triple since 1989, adjusted for inflation. The 50 states spend tens of billions more.

If it weren't for such assistance, the poverty rate would be much worse. Some economists say the rate is somewhat overstated, too, because it doesn't count non-cash aid such as food vouchers.

Today, the elderly, the disabled and the working poor get most means-tested assistance. Higher Medicaid spending - driven by expanding rolls but also by soaring healthcare costs - eats up a growing piece of the overall budget. Part of this shift toward the elderly and disabled is no doubt due to the aging baby boomer population.

Still, people who don't fall into favored categories are getting pinched, especially jobless adults such as Case.

Brandi Burnau faced a perverse welfare incentive as she weighed whether to raise her baby daughter in poverty or put her up for adoption. Jobless construction worker Jeremy Toler, befuddled by the system, passed up benefits his large family may be eligible for.

Alexandria Elliott, a former hotel housekeeper, fell so completely through the cracks that she was unable to get treatment for a debilitating dental disease.

Their home state of Indiana has put in place some particularly stringent limits on poor individuals and families as part of a decades-long effort to revamp welfare.

In 1994, then-Governor Evan Bayh, a conservative Democrat, created work requirements for Hoosiers who received welfare benefits. And if a woman on welfare got pregnant, she'd receive no extra assistance for the newborn.

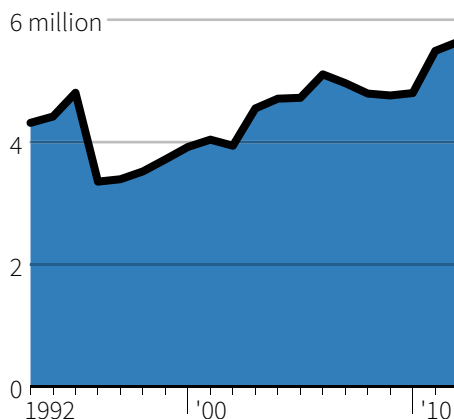
"The bottom line was trying to make someone self-sufficient," Bayh said in an interview. "We were trying to achieve two values - one was the notion of community, and also responsibility."

Two years later, President Bill Clinton and House Speaker Newt Gingrich replaced a federal cash program for poor families dating from the 1930s with a new program, Temporary Assistance for Needy Families, that required adult recipients to

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The unassisted

Number of impoverished, non-disabled, working-age adults with no children at home, who received no help*



*received no aid from five major U.S. federal programs
Source: Current Population Survey / Reuters analysis

The benefits cliff

The U.S. welfare overhaul was designed to incentivize people like Juanita Isom to work. For 13 years, she has had a full-time clerical job at an Indianapolis insurance firm. For 11 of those years, she has been on some kind of public assistance.

The 33-year-old divorced mother of five said she makes roughly \$25,000 a year and gets child support from her ex-husband. But she can only get by with help from five federal government programs - food stamps, Medicaid for her kids, childcare vouchers, subsidized school lunches and the earned income tax credit.

"By the end of the month, I'm out," she said. "I usually have to get help with food from my parents."

Reform advocates argue that cases like Isom's represent a success, even if they aren't happily-ever-after stories. One goal was for recipients to begin supporting themselves as much as possible: partial reliance on government is better than full dependency. Today, 41 percent of people who receive food stamps live in households in which at least one person works.

Isom said she'd love to get off public assistance. But she walks such a financial tightrope that she fears taking risks that could eventually make her self-sufficient. She dreams of becoming a dental hygienist, a better paying profession. But getting the training, she said, would require quitting her job, which is beyond her means.

Last year, Isom's boss offered her a 23-cent-an-hour raise, but she turned it down. Isom calculated that if she accepted the raise it would make her ineligible for the federal programs her family depends on. Overall, she'd lose money.

"I feel kind of stuck," she said.

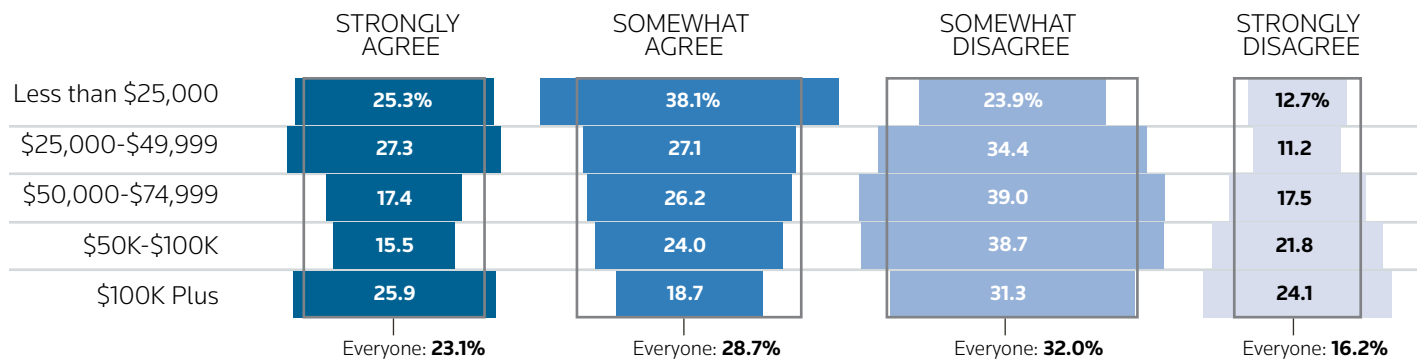
The sudden cut-off in benefits imposed when one's income rises to a certain threshold is known as the "benefits cliff." It's one aspect of the system that many conservatives and liberals in Indiana agree should change. There's no immediate prospect of addressing it yet, however.

Kristina Cooke and David Rohde

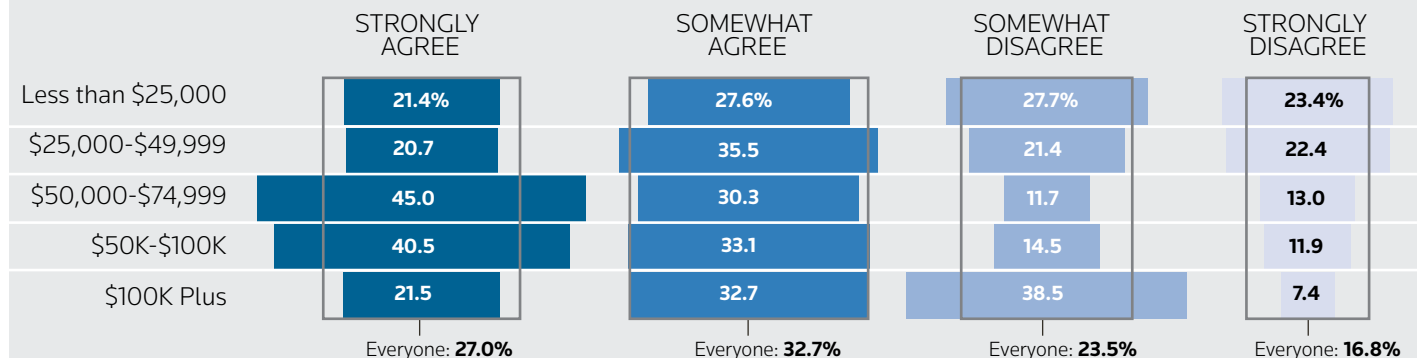
Ambivalent about the poor

Americans surveyed say Uncle Sam should do more to help – but also suspect many poor people don’t deserve it.

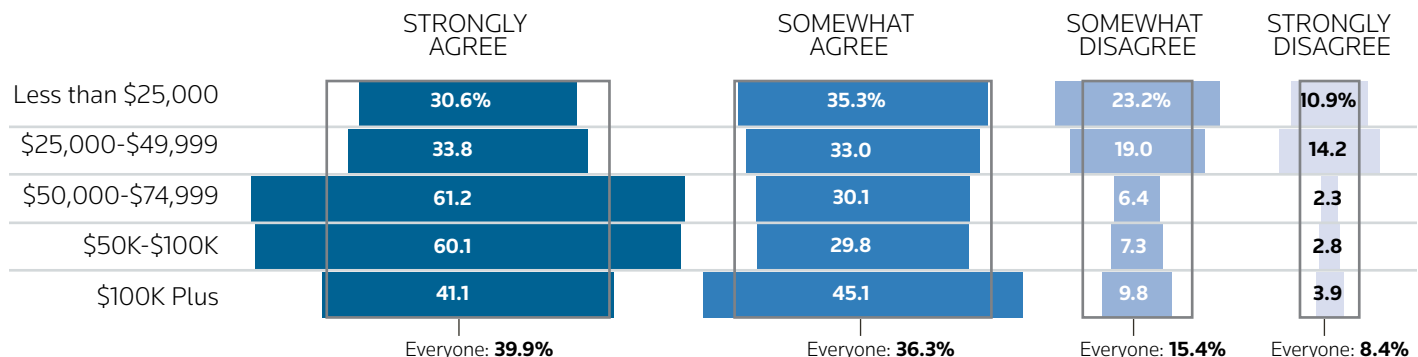
The U.S. government is not doing enough to help the poor



Many poor people receiving aid from the government are just looking for a free handout



Too many Americans are dependent on government anti-poverty programs



Source: Reuters/Ipsos poll. Accuracy, measured using a credibility interval: Less than \$25,000: +/-3.9%; \$25,000-\$49,999: +/-3.1%; \$50,000-\$74,999: +/-3.8%; \$50K-\$100K: +/-3.2%; \$100K Plus: +/-4.3%

seek work. Clinton, a Democrat, called the overhaul “ending welfare as we know it.”

Republican Mitch Daniels, Indiana’s current governor, took it a step beyond. He outsourced management of the TANF system and the intake of Medicaid and food-stamp applicants to IBM. He set a strict lifetime limit of 24 months for cash welfare compared with a federal guideline of five years. Enforcement of work requirements was toughened. Recipients who fail to find work in six weeks must perform community service, such as street sweeping.

That provision was designed to shoo people off the rolls, said Mitch Roob, who implemented the changes as head of Indiana’s social-services agency.

“It was so unpleasant,” Roob said in an interview, “that people would think, ‘I’m just going to get a job instead.’”

Daniels tightened in other areas, too. Parents now have to prove they are seeking child support before getting welfare. If the other parent fails to pay \$2,000 in child support for more than three months, his or her drivers license is suspended.

CASH AID DRIES UP

Since Indiana began revamping its system, the share of poor Indianans getting cash welfare has plummeted, even as the number of households in poverty grew by more than half.

In 1999, an average of 38,000 families per month received basic cash assistance from the TANF program, according to Indiana’s Family and Social Services Administration. By 2011, just 22,400 did – a 41 percent decrease. The average monthly amount each family gets also dropped, from \$253 to \$205.

Overall federal and state spending on TANF in Indiana has actually increased 10 percent since 1998, according to figures from the U.S. Department of Health and Human Services. But only a fraction now goes to cash assistance – \$72 million out of \$292 million. That is down 50 percent from

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“It was so unpleasant that people would think, ‘I’m just going to get a job instead.’”

Mitch Roob, ex-chief Indiana Family and Social Services Administration



THE GAP: Case, 34, is one of 12 million able-bodied working-age poor adults – twice as many as two decades ago. Currently, he’s one of millions getting no poverty aid. **REUTERS/AARON P. BERNSTEIN**

How we analyzed poverty relief

The United States has a wide range of antipoverty programs but keeps no comprehensive body of data on them. Thus there are no official figures on how many poor people receive no help.

Reuters used the Current Population Survey’s March supplement, published annually by the U.S. Census Bureau, to calculate the estimated population of working-age, non-disabled adults without dependent children and living below the poverty level. Reporters then determined how many of these adults receive help from any of five major U.S. federal antipoverty programs – Medicaid; the Supplemental Nutrition Assistance Program

(food stamps); Temporary Assistance to Needy Families (cash welfare); housing assistance; and the Earned Income Tax Credit. Our calculations didn’t include spending on state or smaller federal benefit programs.

The Current Population Survey’s March supplement consists of interviews of some 95,000 households. The survey is rare among federal data sets because, among other things, it provides insight into how much help Americans are receiving from the primary welfare programs. The data were standardized and made available through the Minnesota Population Center at the University of Minnesota.

Ryan McNeill

Why the U.S. is more unequal than most

Some rich countries are more unequal than others - and the United States more so than most.

America has a higher degree of income inequality than almost any other developed country. Only three of the 34 members of the Organization for Economic Cooperation and Development rank higher - Chile, Mexico and Turkey.

So why is the U.S. so much more unequal than its peers? The U.S. Congressional Research Service cited several potential reasons in a report earlier this year.

One is that most other rich countries spend a bigger share of their national output on social programs, which tend to lessen income inequality. In Germany, public social spending accounted for 27.8 percent of gross domestic product in 2009, compared with 19.2 percent in the United States, according to the OECD.

A second factor is tax systems. A 2012 study by economists at the OECD found that, in general, the more a country spends on social programs, and the more progressive its tax-and-transfer system is, the more it can reduce income inequality. The U.S. is less effective at reducing inequality through taxes and benefits than the OECD average; German policies have cut inequality more than the average.

Australia spends less than the OECD average on social programs - but has been more effective than average in reducing inequality. Economists say this may be because Australia targets its programs more squarely at low-income families.

A third potential reason is the way earnings are divided. Michael Forster of the OECD suggests inequality in English-speaking countries may be higher because Anglophone corporate executives have more options of

places to work than do, say, German speakers, and so they can demand higher pay.

Attitudes toward the poor may make a difference, some researchers say. A 2008 OECD study found that respondents in the United States and Korea were far more likely to say poor people were poor because they are lazy than did respondents in Nordic and Continental European countries.

That speaks to a common belief among Americans that anyone who works hard enough can become rich. As John Steinbeck once wrote, in America, "the poor see themselves not as an exploited proletariat but as temporarily embarrassed millionaires."

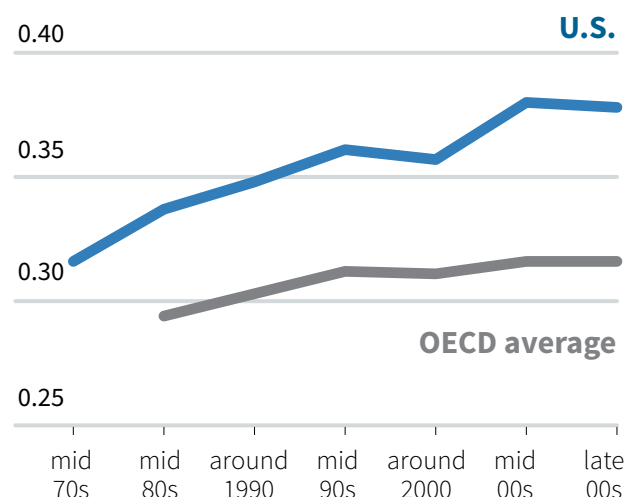
Recent studies, however, have shown that Americans are now less likely to move into a class above their parents than are people in other rich countries.

Kristina Cooke

The rich-poor gap: How America compares

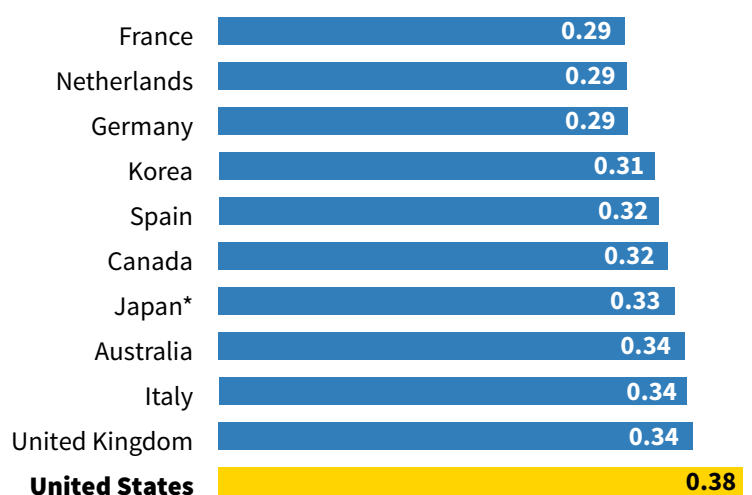
VERSUS THE OECD AVERAGE

Gini index - higher number indicates more inequality



VERSUS OTHER ADVANCED ECONOMIES

Gini index as of 2008



*2006 data

Source: Organization for Economic Cooperation and Development. These are net figures, after accounting for taxes and other transfers

1998. The rest goes toward intangible programs like job training or education about marriage and pregnancy-prevention.

It's a national trend: America has slashed the number of people on cash welfare by two-thirds since 1996, to 1.4 percent of the populace.

Housing aid also hasn't kept up with the growth in poverty. From 1999 to 2011, the number of Hoosier households in poverty grew by more than half. But in 2011, the number receiving either public housing or federal rent subsidies was just 5 percent higher than a decade earlier. Today, just 16 percent of poor households get federal housing help.

The number of American adults on the most expensive program for the poor, Medicaid, has tripled since 1990. The average amount spent per working-age adult has fallen 12 percent, even as medical costs have soared. States have a say over who is eligible. In Indiana, working parents have to earn less than 24 percent of the federal poverty level to qualify - currently, no more than \$5,532 a year for a family of four. That's the strictest level in the country, along with Alabama. Indiana is one of 41 states that don't cover childless adults.

CONFLICTED FEELINGS

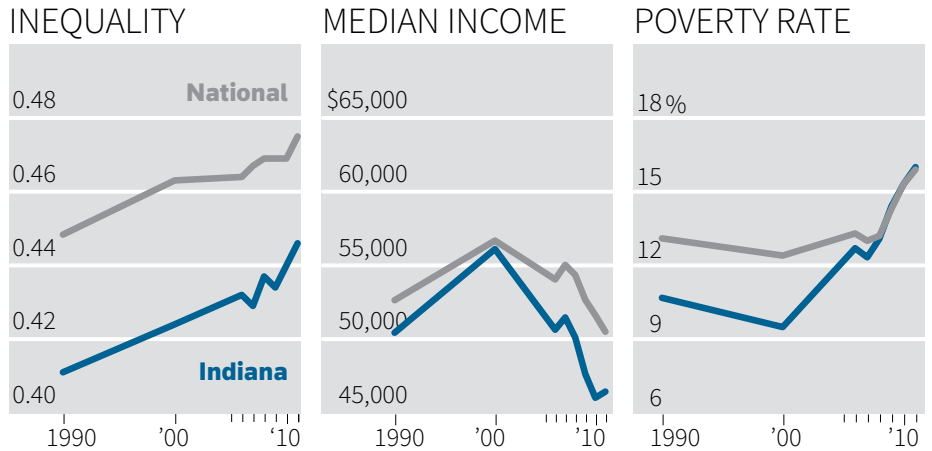
The food-stamp program also has expanded dramatically, both nationally and in Indiana. In 1999, only half of poor Indiana households got food stamps. By 2011, just under 90 percent of a much-bigger number of impoverished households were covered. Each on average received \$300 a month, an amount unchanged since 1999 when adjusted for inflation.

Another growing program is the Earned Income Tax Credit, which increased nearly sixfold amid the welfare-to-work overhauls. But it's a payment that comes just once a year. And it's meant to top up the incomes of people with jobs, who make up to twice the poverty level. People without earned income don't qualify.

As lean as the times are, Americans are conflicted about expanding poverty

Hard times for Hoosiers

Indiana has seen inequality, income and poverty worsen.



Notes: Inequality is measured on the Gini index a gauge of income distribution among households; 0=perfect equality, 1=total inequality; Income figures adjusted for inflation

Source: Census Bureau figures. 1990 Census; 2000 Census; 2006-2011 1-year American Community Survey

assistance - even poor Americans.

On a recent Thursday afternoon, Tanya Jones was among a hundred men, women and children waiting for free groceries at a cavernous former printing plant in Indianapolis that's now one of the largest food pantries in the Midwest. Asked what she would change about public assistance, she said the government should stop benefits from going to those who don't deserve them.

“You got all these people who can work, who won’t,” said Jones, a 28-year-old mother of two, whose \$12.75-an-hour job as a caterer isn’t enough to feed herself, her two children and her mother. “I feel the help should be there for the people who need it, not the people who don’t want to work.”

That ambivalence about helping the

14%

Americans who say able-bodied poor adults deserve cash aid

Source: Reuters/Ipsos poll

poor is widespread. A Reuters/Ipsos poll of Americans in October and November found that 52 percent of respondents said the government isn't doing enough to help the poor. Yet 40 percent said that most people who receive aid don't deserve it, a follow-up survey found.

Respondents overwhelmingly opposed aiding non-disabled adults. Sixty-six percent of respondents felt the elderly deserve cash assistance, and 40 percent said children do. Just 14 percent supported cash help for able-bodied poor adults without dependent kids. (Because these polls are collected online, accuracy is measured using a credibility interval. For these questions, the interval was 1 percent to 1.5 percent.)

Those values are reflected in poverty policy. In a 2011 paper, economists Yonatan Ben-Shalom, Robert Moffitt and John Karl Scholz found that families in which no one is continuously working and which have no elderly or disabled members are the “most underserved” by U.S. antipoverty programs of any group.

Their poverty rate, the authors calculated, was 67 percent after factoring in government aid. For the elderly, it was 9 percent.

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2011

\$312,000

Average income of top 5%
of U.S. households

\$11,000

Average income of bottom 20%

28:1

Ratio: top to bottom



1989

\$286,000

Average income of top 5%
(in 2011 dollars)

\$12,000

Average income of bottom 20%

24:1

Ratio: top to bottom

Source: 1990 U.S. Census; 2011 American
Community Survey; Reuters analysis



FEEDING INDIANA: Clients shop at the St. Vincent de Paul food pantry in Indianapolis.

REUTERS/AARON P. BERNSTEIN

That's because the elderly enjoy the two largest federal entitlement programs, Social Security pensions and Medicare health insurance. These are aimed at all seniors, not just poor ones. The two spent a combined \$1.2 trillion last year - more than the entire federal budget aimed specifically at the poor.

"STURDY BEGGARS"

Suspicion of the able-bodied poor runs deep. Policy makers for centuries have gone through phases in which they view welfare through the concept of the "deserving and undeserving poor." Sheila Suess Kennedy, a professor of law and public policy at Indiana University, said the concept harkens back to 15th-century England, where statutes banned charity for people who appeared able to work. They were called "sturdy beggars."

The United States is in such a phase now. When President Lyndon Johnson launched the "War on Poverty" in 1964, the prevailing view was that the poor were victims of circumstances beyond their control. That changed in the 1980s and 1990s. Conservative critiques of the welfare state as a source of debilitating dependency, as well as widespread claims of fraud, eroded support for cash assistance and paved the way for the 1996 overhaul.

Some economists say the effort to incentivize worthiness has created an incoherent system of relief for the poor. Some households get the panoply of means-tested benefits - food stamps, Medicaid, TANF, housing subsidies and tax credits. Others get little or nothing.

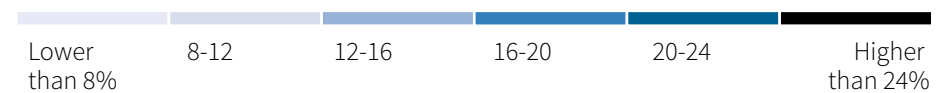
"We have a kind of patchwork set of programs," said Robert Moffitt, professor of economics at Johns Hopkins University in Maryland, "where some families fall through the cracks, and some other families get more than maybe they would under a better-designed system."

Gov. Daniels agrees the system isn't working. He says it's "well-intentioned" - but has become convoluted with programs "stacked on top of each other for two

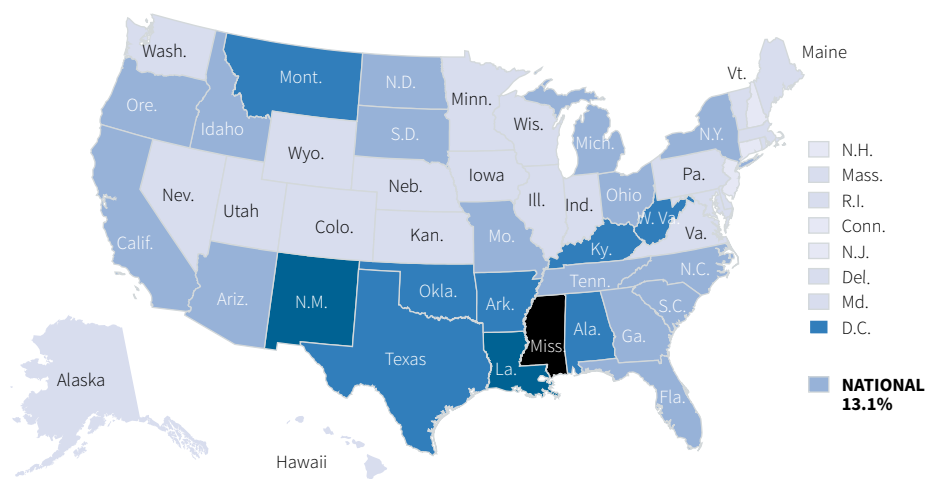
A tide of woe

Poverty has risen in 43 states. Indiana saw the 2nd-biggest rise.

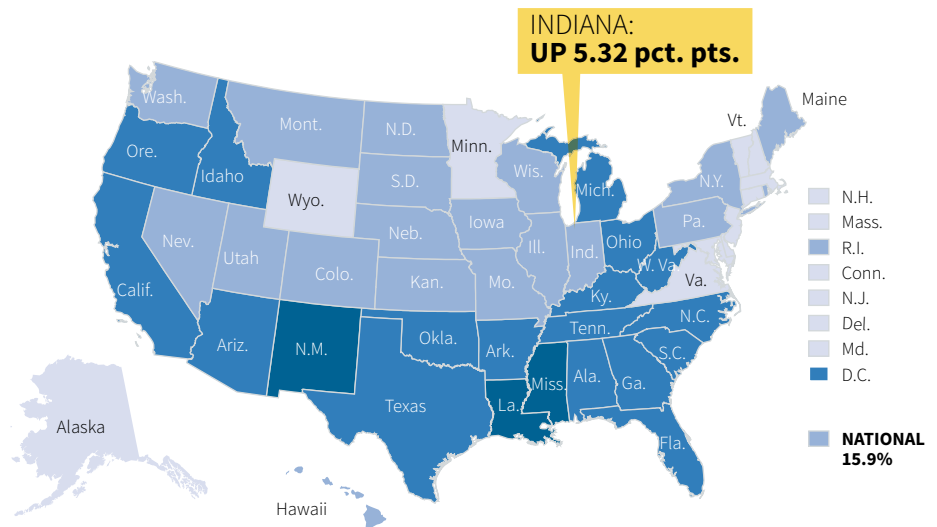
POVERTY RATE



1989



2011



LARGEST DECREASE:
LOUISIANA

-3.2 pct. pts.

LARGEST INCREASE
NEVADA

5.7 pct. pts.

Source: Census Bureau figures, 1990 census, 2011: 1-Year American Community Survey

generations now.” Smarter spending, not more spending, is the answer. “The money it wastes is the second-biggest problem,” he said in an interview. The first is “the undermining if not destruction of human dignity and the ethic of personal responsibility.”

A DIFFICULT DECISION

Brandi Burnau, a round-faced 22-year-old with brown eyes, said she has been struggling on her own since she aged out of the foster-care system four years ago. Single and unemployed, Burnau recently had a baby daughter, Ava. Eight months ago she made a hard decision: She gave Ava up for adoption.

At the time, she was working in a warehouse outside Indianapolis stocking shelves, and she burst into tears every time she saw baby books. She left work early a couple of times, she said, and was let go. Having been on the job just three months, she was ineligible for unemployment benefits.

Burnau took to sleeping in her car, in homeless shelters and at the homes of strangers she met at the bus stop. Last month, Burnau was asleep in the car, which bore a sign that read “homeless and desperate.” An older woman knocked on the window and gave her food, and invited Burnau to stay at her house for as long as she needs. “We now go to church together,” she said. “She’s helped me a lot.”

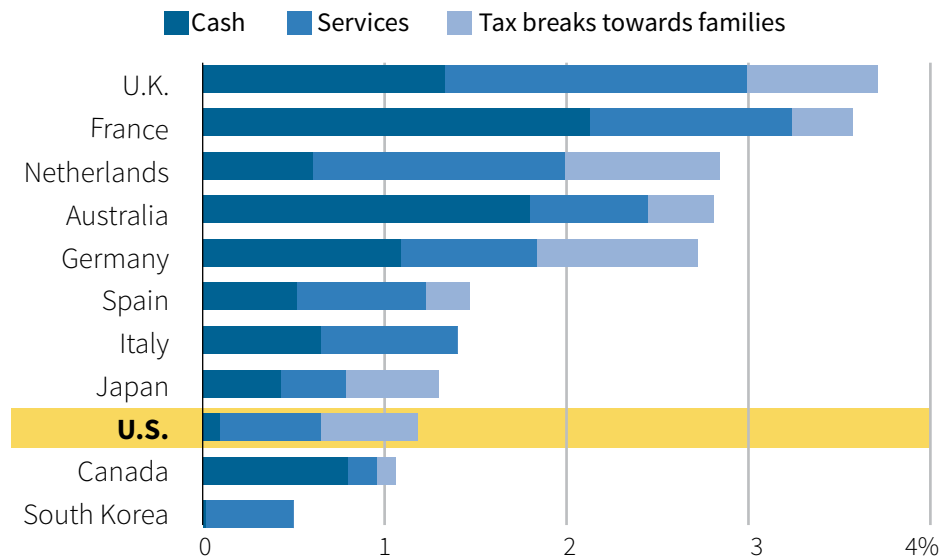
But her future is uncertain, and Burnau is mystified by the incentives the welfare system presented her. A simple financial calculus, she said, would favor keeping Ava. She received \$3,000 for living and medical expenses from the adoptive family during pregnancy, the cap under state law.

As a single parent, Burnau said, she could have soon received much more than that in additional welfare benefits: TANF cash aid for mothers, more money in food stamps, free Medicaid coverage and preferential treatment at homeless shelters. Today, she said, she gets \$180 a month in food stamps, but no other government aid.

“When you’re single, they don’t care,” she

Safety nets

Public spending on benefits aimed at families, as a percent of GDP, 2007



Source: Organization for Economic Cooperation and Development

said. “If I had kept my baby, I would have benefited, but I didn’t want to be selfish.”

Jeremy Toler, 36, is also puzzled by the welfare state, and he used to work for it.

After serving in the army reserves and graduating from Ball State University with an associate’s degree, Toler got a state job processing claims in a child-care program for the poor. When the state automated the system, he and the rest of his office were laid off.

Toler then landed a series of construction jobs, working for the past three years at a local demolition and building company. After two marriages that ended in divorce, he now lives with his girlfriend and the five children

they’re raising – four from their previous marriages, and one they had together.

In June, he moved to another construction firm, but unhappy there, Toler quit. That was a mistake. Under the federal unemployment insurance system, workers get benefits only if they are laid off, not if they quit. A few weeks later, his girlfriend lost her job.

Since June, Toler said recently, he has applied for dozens of positions without luck. The family lives in a trailer home and gets by on Medicaid, food stamps and donations from local food pantries. Like Case, he also sells plasma twice a week.

Toler has had trouble navigating the Temporary Assistance for Needy Families program. He believed he and his girlfriend each had to spend a total of 70 to 80 hours a week in resume workshops or actively looking for jobs. He also thought the state provided no childcare. After being told their family would receive \$300 per month from TANF, he said, they decided it wasn’t worth applying.

State officials said the program, in fact, provides childcare and requires a combined 55

1.4%

Percentage of Americans who receive cash welfare

Source: Reuters analysis



DIFFICULT CHOICES: Brandi Burnau, 22, with her nephew, says giving up her baby for adoption was the right thing for the child. But it also cut her eligibility for welfare. **REUTERS/AARON P. BERNSTEIN**

hours a week for a couple. They said a family of seven - like Toler's - can receive up to \$522 per month.

His troubles are mounting. This summer, Toler's truck was repossessed. He stopped paying the child support he owes an ex-wife on the child she is raising, and was briefly arrested in October and ordered to appear in court after she reported him. He has also stopped making payments on the \$17,000 mortgage on his trailer home and his \$1,900 in student loans.

"It seems like the harder you worked in life, the less help you get," Toler said.

Some fall completely through the gaps. Seven years ago, Alexandria Elliott, now 37, said she developed hereditary periodontal disease. Last year, the infections grew so severe that a doctor told her she may die if she didn't have her remaining eight teeth pulled. The extractions would cost \$2,300. First she had to find the money.

Elliott, who used to work as a low-wage hotel housekeeper, didn't have health insurance. She couldn't get on Medicaid, because working-age Indianans without dependent children aren't eligible. She didn't qualify for cash welfare benefits for the same reason - her daughter was over 18.

In February, she had to borrow to have

\$30

Amount Shaun Case earns selling plasma at a blood center

the dental surgery, leaving her with a debt to pay. When she gets a job, she hopes to raise the \$800 she said she'll need to buy dentures. Elliott also isn't receiving food stamps.

"I tried the (university hospital), I tried the schools, I tried state assistance.... And nothing," said Elliott. "And I'm suffering to the degree I want to shoot my head right off my shoulders and can't take it anymore. Why can't I get a little help to pull a tooth?"

Shaun Case's problems began long before his difficulties in getting help from the government.

Case, a short and mild man with a boyish face, favors baggy clothes. The son of a drug-addicted mother and alcoholic father, he - and his three brothers - spent much

of childhood in foster care. Case's mother said she was abused by his father, and she fled when Shaun was a toddler. Shaun's father repeatedly beat him and his brothers, according to Case, his mother and a sibling. When Case was 14, his grandmother pushed him through a window. He nearly bled to death from the resulting gash in his wrist, relatives say.

"Two major arteries were cut," said Case, who also suffered nerve damage. "I have no feeling in my left hand."

Placed in foster care, Case underwent a psychiatric evaluation. He was found to have a learning disability but not bad enough to have him officially declared mentally disabled.

Case's father couldn't be reached for comment.

When he was a senior in high school, Case got his girlfriend pregnant and dropped out of school to try providing for her. She later miscarried but the two eventually married. The couple had two daughters together, but divorced.

His primary source of employment has been temp agencies. He has worked as a janitor, airport security guard, construction worker and in other low-paying roles. He has no substance-abuse problems and no scrapes with the law, relatives say.

But Case's meager skills and cognitive problems trap him. He has tried to get a high-school equivalency degree but struggles in the classroom. His temporary work assignments have all ended with companies choosing to not permanently hire him.

"It didn't work out," Case said, referring to a stint as a supermarket cashier. "I was either giving too much or too less change. The manager was like, 'Are you serious? What is going on here?'"

Emotional problems hinder him as well. "People will tell him he's retarded or stupid and it sets him off," Case's older brother Joe said in an interview.

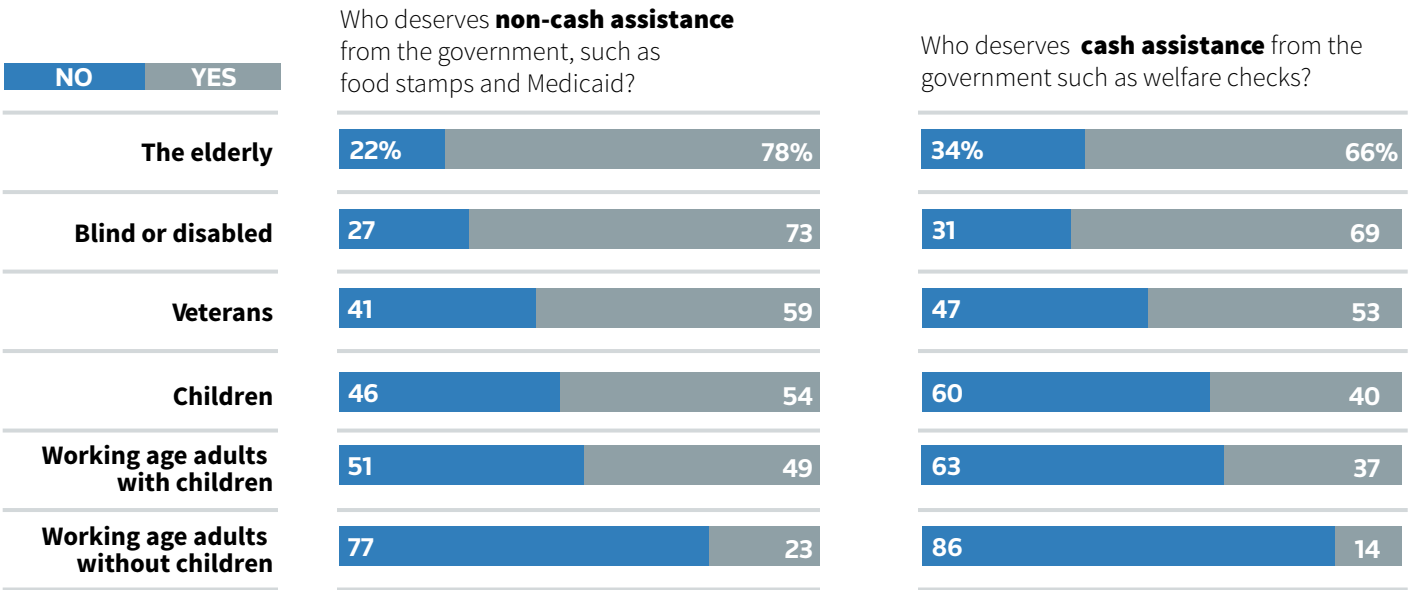
Today, Case and his siblings remain mired in poverty. Joe makes \$400 to \$500



OPINION Don Peck: Inequality's pernicious twin: our cultural divide
blogs.reuters.com/us

Who's worthy of help, and who isn't: Poll

While Americans tend to support welfare for the old, disabled, veterans and children, they are overwhelmingly opposed to government support for able-bodied adults.



Reuters/Ipsos poll Nov. 11 – Dec 2. Accuracy: +/- 1.5 percent

a month as a self-employed computer consultant, and Joe’s wife makes \$1,000 a month at a daycare center, with no health benefits. Raising five children together, Joe said, they usually receive Medicaid and \$520 a month in food stamps.

As an able-bodied adult without dependent children, Shaun qualified for no help other than food stamps. He has repeatedly applied for disability but been turned down. He applied for free healthcare at a local hospital but missed appointments and was rejected.

When Case falls ill, he goes to hospital emergency rooms. During his divorce, he experienced severe pain in his abdomen, he said. Emergency-room doctors found that he had untreated stomach ulcers.

Case said his biggest goal – and challenge – is finding steady well-paid work.

“When I was 18, you could leave a job and find another one,” Case said, tucking into an omelet at Burt’s Peppy Grill, a diner in eastern Indianapolis. “Every year, it just gets worse.”

As in other parts of the country, the

loss of high-paying manufacturing jobs in Indiana has eroded economic opportunities for people with few skills. Seven out of 10 jobs in Indiana now pay less than \$45,000 a year, according to the Indiana Institute for Working Families, a think tank. That’s just a few thousand dollars above the income the institute says a three-member Indianapolis family needs to be self-sufficient.

Case now lives on the living-room couches of Joe and a second brother, Tom.

In October, Case lost his food stamps after a paperwork glitch: The state sent him a letter requesting more documentation, which he said he never got. After he tried and failed to straighten things out, a notification arrived saying he’d been cut off. As of last week, he was still trying to land an appointment with a caseworker to restore his benefits.

Case said his dream is to be an art teacher, something his foster father said is impossible given Shaun’s cognitive and emotional problems. Case said his second choice is to learn a skilled trade such as plumbing or carpentry.

“If you don’t have a good education, you could end up on the street,” said Case. “Five years from now, I don’t know what I’m going to do.”

If he finds work, Case will have trouble getting there. His driver’s license has been suspended. With virtually no income, he fell behind on child-support payments, and so the state has frozen his license.

On a recent day, Case set out for the Indianapolis suburbs, where warehouses operated by Amazon and other companies were advertising jobs. He took two buses and then walked 3 miles, a journey of about two-and-a-half hours, to look for work. He had no luck.

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The privatized welfare state

Indiana's bold effort to remake welfare got off to a shaky start.

In 2006, Gov. Mitch Daniels privatized the management of the welfare-benefits system with a project led by IBM. Two-thirds of Indiana's social-service agency's staffers became employees of IBM and its partners. In a process dubbed "welfare modernization," recipients would apply for benefits online and by phone rather than meeting social workers face to face.

It was, by Daniels's own admission, a failure. Critics accused him of ignoring the lessons of a failed privatization effort in Texas. People were wrongly denied benefits and documents were lost, according to a lawsuit the state filed against IBM. Daniels canceled the IBM contract in 2009.

Advocates for the poor say the phone- and Internet-based system proved too difficult for many recipients to navigate because they lacked literacy and computer skills. Opponents also accused the governor's office of steering work to a company owned by a campaign contributor, Affiliated Computer Services, now owned by Xerox. Daniels and Mitch Roob, an executive at Affiliated before becoming social-services chief, denied any quid pro quo.

This July, a Marion County judge awarded \$52 million to compensate IBM for cancellation of the contract, castigating the state for "misguided government policy" and IBM for "overzealous corporate ambition."

In an interview, Daniels said the current, revised system - a public-private hybrid - is a success. He cited statistics showing that timeliness and accuracy of benefits have increased. Some recipients agree that the new system is more efficient than the first revamp. Some remain confused by the process and the eligibility rules, however.

At one privately run Indiana call center

where applicants call in to apply for benefits, the target time for handling each case is 12 minutes, according to an employee who spoke on condition of anonymity. The employee said she handles 35 to 50 calls a day.

"Frustrated employees will tell the client anything to just get them off the phone and keep their time down," the employee said. "We have to take a call, authenticate, find out what they want, answer their questions and wrap up ... all within 12 minutes. It's kind of like a game show. And people who need food stamps or nursing home care, they are losing out."

Jennifer Wasmer, a spokeswoman for Xerox, which runs the call center, denied there



BIG CHANGE: Daniels advocates a "negative income tax" to top up the earnings of the poor. **REUTERS/JONATHAN ERNST**

were time targets. She said the average call is 14 minutes, and employees are evaluated primarily on quality, not speed. "The Indiana model is innovative and exemplary," Wasmer said in a statement. "Things have changed in Indiana for the better."

Daniels, who leaves office in January, said his broader overhaul effort was stymied by the steep recession and by ineffective federal programs. He advocates a reform even bolder than the ones he implemented: Scrap most federal antipoverty benefits and replace them with a "negative income tax."

Championed by the late conservative economist Milton Friedman, the negative tax is simple: Set a minimum income for all Americans, and have the Internal Revenue Service give low earners a payment (a negative tax) that raises their incomes to that level. Recipients would choose how they spend their

money. The federal government would save on administrative costs. The market would provide food, housing and health insurance.

"I honestly think that something like a negative income tax deserves a closer look," Daniels said in an interview. "You set a target amount and if a person earns less than that, you top them up."

Given the big rollback of cash aid for the poor in recent years, the idea seems unlikely to fly.

President Barack Obama's medical-insurance overhaul would significantly expand one form of aid to working-age adults, by expanding the availability of Medicaid. His re-election means a Republican attempt to kill his changes is likely to fail. But states such as Indiana have the ability to limit their scope.

If Indiana expands Medicaid, an estimated 298,000 to 427,000 additional adults will enroll in the program by 2019. The incoming governor, Mike Pence, said in the campaign he'd support expanding Medicaid only if the state could limit benefits and charge higher premiums to recipients.

"Medicaid expansion feels like the classic gift of a baby elephant," he said at a meeting of Republican governors last month. "And the federal government says, 'We'll pay for all the hay — for the first few years.'"

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