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ABSTRACT

Designed to facilitate research, preparation, and presentation of arguments for the national debate topic, this manual summarizes trends in poverty over the past 24 years, examines reasons for changes in the rate of poverty, discusses demographic characteristics of the poverty population, and analyzes methods used to calculate the number of poor Americans. The volume begins with a collection of articles and excerpts from books that present a general background on poverty and issues surrounding potential government policies directed at reducing poverty. Subsequent parts are devoted to each of three debate propositions: that the federal government should (1) guarantee a minimum annual cash income to all United States citizens, (2) adopt a negative income tax to assist all citizens living in poverty, and (3) provide employment for all employable citizens living in poverty. The manual concludes with a guide to information sources and brief bibliographies of selected additional readings and available government publications. (HTH)

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How Can the Federal Government Best Decrease Poverty In the United States?

National Debate Topic for High Schools
1984–1985

Pursuant to Public Law 88-246

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PUBLIC LAW 88-246, 88TH CONGRESS, S. 2311,
DECEMBER 30, 1963

AN ACT To provide for the preparation and printing of compilation of materials relating to annual national high school and college debate topics

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Librarian of Congress is authorized and directed to prepare compilations of pertinent excerpts, bibliographical references, and other appropriate materials relating to (1) the subject selected annually by the National University Extension Association as the national high school debate topics and (2) the subject selected annually by the American Speech Association as the national college debate topic. In preparing such compilations the Librarian shall include materials which is in his judgement are representative of, and give equal emphasis to, the opposing points of view on the respective topics.

Sec. 2. The compilations on the high school debate topics shall be printed as Senate documents and the compilations on the college debate topics shall be printed as House documents, the cost of which shall be charged to the congressional allotment for printing and binding. Additional copies of such documents may be printed in such quantities and distributed in such manner as the Joint Committee on Printing directs.

Approved December 30, 1963.

(II)

FOREWORD

"How can the Federal Government best decrease poverty in the United States?". This is the 1984-85 high school debate topic chosen by the vote of thousands of local U.S. high school debate coaches in a contest run under the auspices of the National University Continuing Education Association and the National Federation of State High School Associations. The three debate propositions designated within this topic are:

- Resolved: That the Federal Government should guarantee a minimum annual cash income to all United States citizens.
- Resolved: That the Federal Government should adopt a negative income tax to assist all United States citizens living in poverty.
- Resolved: That the Federal Government should provide employment for all employable United States citizens living in poverty.

This volume begins with a collection of articles and excerpts from books that present a general background on poverty and issues surrounding potential Government policies directed at reducing poverty. Subsequent parts are devoted to each of the three propositions. Finally, a guide to information sources and brief bibliographies of selected additional readings and available Government publications are included. Inclusion or exclusion of articles or other material in this manual does not represent either approval or disapproval of them or the issues they discuss by the Congressional Research Service.

In its structure, this manual is designed to facilitate research for the 1984-85 high school debate. However, it is important that debaters using it understand that the issues presented by each of the three debate propositions are closely connected and that materials presented in one part may be very helpful in debating issues in another.

This manual was prepared by staff members of the Education and Public Welfare Division and the Library Services Division. Joe Richardson compiled and coordinated the collection of materials in consultation with Vee Burke. Marsha Cerny assisted in the preparation of the bibliography; Barbara Sanders secured copyright permission. Gene Falk, Monica Parish, and Paul Graney provided invaluable technical assistance. And, Cynthia Everette and Jane Lindley helped in the administration of the project.

The Congressional Research Service would like to acknowledge its appreciation to the copyright holders who have generously granted their permission for the reproduction of their materials; permission is acknowledged with each article or excerpt. It would also like to acknowledge its appreciation to those experts in the field outside the Library of Congress who have contributed a number of useful suggestions for inclusion in this manual.

Good luck to each debater in researching, preparing, and presenting arguments on this year's topic.

Gilbert Gude

Gilbert Gude
Director, Congressional Research Service

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PART I.—GENERAL BACKGROUND

POVERTY: TRENDS, CAUSES, AND CURES

(by P. Royal Shipp)

I. INTRODUCTION

After a decade of steady decline followed by another decade of relative stability, the share of people in poverty in the United States began a sharp rise in 1978, which continued through 1982 and now equals 15 percent of the population—the highest level since 1965. In 1982 the poverty rate stood about one-third higher than when it began to rise. The number of individuals in poverty increased by 9.9 million during those 4 years.

The poverty rate at a given time reflects economic opportunities, Federal and State government income transfer programs, and demographic conditions. Complex interactions among these factors account for the progress against poverty in the 1959-1969 period, the plateau from 1970 to 1978, and the ground lost from 1979 to 1982.

This report summarizes trends in poverty during the past 24 years. It examines reasons for changes in the rate of poverty and discusses demographic characteristics of the poverty population. Further, the report analyzes the methods used to calculate the number of poor Americans. The measure itself is controversial. One critic contends that, no matter how measured, poverty has been rising over the past three years. Some critics claim that the measuring technique overstates, and some that it understates, the nature and extent of the poverty problem.

Reproduced from: U.S. Library of Congress. Congressional Research Service. Poverty: trends, causes, and cures. [by P. Royal Shipp] Report no. 84-9 EPW, February 1984. p. 1-21.

II. HOW POVERTY IS MEASURED

When the Federal Government began measuring poverty in the early 1960s, the continued existence of poor people in a time of the "Affluent Society" seemed anomalous. The search for programmatic ways to alleviate poverty soon generated efforts to measure the size of the poverty population. The first rough estimates of the incidence of poverty were built on survey data indicating that families generally spent about one-third of their incomes for food. A poverty level income was then calculated by using as a yardstick the amount of money necessary to purchase the lowest-cost "nutritionally adequate" diet calculated by the Department of Agriculture (roughly equivalent to the current Thrifty Food Plan). This price tag was then multiplied by three to produce a poverty income threshold.

Thus, this procedure assumed that if a family did not have enough income to buy the lowest-cost nutritionally adequate diet, [illegible] ice that amount for other goods and services, it was "poor." Crude as this assumption is, adjustments were made for the size of the family, sex of family head, and for whether the family lived on a farm or not. Farm families were assumed not to need as much cash income because more of their needs could be met through homegrown farm products--particularly food. (Differentials for sex of family head and for farm-nonfarm residence were abolished in 1981.) These first estimates found that 39.5 million--22 percent of the population--persons were poor in 1959.

Since the earliest estimates were made, individuals, agencies, foundations and commissions have studied poverty, and some have focused on how it is defined and measured. The research supporting these activities has illuminated the issues surrounding poverty and its measurement. The basic concepts, problems associated with them, and measurements have changed little since 1959, although in 1969 policy officials made one basic change in the method for calculating the poverty level of income. The poverty threshold is now established each year by increasing the previous year's level by the change in the Consumer Price Index (CPI) rather than multiplying the cost of the Thrifty Food Plan by three.

4. <u>Issues in the Concept of Poverty and Its Measurement</u>

Even though the concepts underlying the official measurement of poverty have not changed since their development almost two decades ago, they continue to be debated. Controversy has centered around two questions: (1) whether to define poverty in relative or absolute terms, and (2) what definition of income to use. Other issues in the measurement of poverty are simply extensions or derivatives of these basic two.

Experts in the study of poverty identify two ways to think about the problem: Poverty can be viewed as relative or absolute. In general, an absolute standard measures basic subsistence needs, but a relative one measures income distribution.

Relative standards of poverty are directly linked to the distribution of income in the society. Under this concept, poverty is not a condition of absolute want. Rather, it is defined as "having a lot less than most people" even if that means having more than what is considered to be "enough to get by." Using a relative poverty standard, economic growth alone would not eliminate nor necessarily reduce poverty. Under a relative standard, poverty would be reduced only if income became distributed more equally.

The Federal Government measures poverty as an "absolute" concept, which changes only with inflation. Under this approach, the number of poor households would be expected to decline during times of rapid growth, and to increase during times of rising unemployment, rapid inflation or outright economic recession, such as characterized much of the decade of the 1970s. The absolute concept of poverty makes possible the elimination, or at least the reduction, of poverty without a change in the distribution of income.

Determining the appropriate concept of income causes controversy in a number of public policy settings. Whether it is for purposes of taxation, eligibility for welfare benefits, or establishing a poverty yardstick, arriving at agreed upon definitions of countable income requires extensive analysis coupled with compromise, and in the end remain controversial.

The current policy definition counts cash income from earnings, returns on property, and government transfer payments (Social Security, welfare, etc.). It does not include noncash employment compensation such as employer-paid health insurance, employer contributions to Social Security or other pension coverage; nor government in-kind benefits such as food stamps, Medicare and Medicaid, and housing assistance; or tax "expenditures" such as child-care tax credits, earned income tax credits, etc. Substantial government in-kind benefits go mainly to low-income persons. Excluding them from income hampers efforts to assess the effect of government policies on the poor, particularly since in-kind benefits have been the fastest growing programs targeted on the poor during the past decade. In addition to conceptual questions regarding the proper definition of income, practical issues of how to value in-kind benefits have plagued efforts to count them.

The exclusion of in-kind benefits has been the most frequently criticized feature of income measurement for poverty purposes. However, other

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features, while not so well known, may affect the accuracy of the measures as well. For example, the income measure used to determine the population in poverty is before-tax income, although the original definition of the poverty threshold was based on a concept of after-tax income. If the official measure were based on after-tax income, countable income would be less and a larger number of earners and their families would fall below the poverty threshold. Although low-income families pay little income tax, those who work pay 6.5 percent of their earned incomes in Social Security contributions. Furthermore, income is counted as an annual total without cognizance of periods of time during a year when a family had little or no income. If a shorter time were used for measuring poverty, the number of people deemed to be poor would rise because the number of poor for some period of time during a year is greater than the number of poor for the year as a whole. On the other hand, the official poverty counts may be too high because cash income is unreported in census surveys and because the value of assets, even liquid financial resources, is not considered.

All in all, many such anomalies subject the current poverty measure to criticism. However, the present methodology has the advantage of being consistent over the entire 24-year period, permitting assessment of trends and changes in trends in the number and percent of people who are poor. It would also appear that a perfect measure probably could not be designed.

B. Poverty Rates

The proportion of people in poverty declined steadily during the 1960s. From a high of 22 percent of the population in 1959, the first year of measurement, the rate dropped each year until 1970. With a few bumps up and down, including the lowest recorded level of 11.1 percent in 1973, the rate essentially stabilized during most of the 1970s--never dropping below 11 percent and never rising above 12.5 percent. Then, starting in 1979, the poverty rate turned up, increasing each year, until it reached 15 percent in 1982 (the latest year for which data are available), an increase of nearly one-third in just 4 years. These trends paint a valuable picture of the progress and setbacks in the Nation's efforts to reduce poverty. But the overall rates tell only part of the story. They disguise some important issues. Within these overall averages, the rates for particular groups of people have varied substantially.

1. Poverty Higher for Blacks

The poverty rate for blacks has stubbornly stayed two to three times higher than the rate for whites. During the 24-year period for which we have data, the poverty rate for blacks declined by 55.1 percent to 30.3 percent in 1982, still very high. In 1982 nearly one-third of all black households in the Nation had incomes below the poverty level. This figure is influenced, however, by another characteristic of the poverty population: The group with the highest poverty rate of all continues to be female-headed households. This is largely because women's earnings average approximately 40 percent less than men's and because their average rates of participation in the labor force are lower. Since a disproportionate share of female-headed families are black, this factor increases the incidence of poverty among blacks. Even excluding the relatively high proportion of black female-headed households, the poverty rate for blacks is almost double that of whites: 18.0 percent, compared to 9.3 percent.

2. <u>The Number of Poor Elderly Continued to Decline</u>

The greatest success in reducing the rate of poverty occurred among the elderly. Starting at a rate of 35.2 percent in 1959, over two times the rate for other adults, the rate had dropped by 1982 to 14.6 percent, just slightly lower than the overall rate—which by this time was on the rise. Although the overall poverty rate began rising in 1979 and by 1982 had risen by 32 percent, the poverty rate for the elderly held steady at a rate near its low point. Three main factors reduced poverty among the aged: The Social Security program grew rapidly during the entire 1970s and into the 1980s; Congress established the Supplemental Security Income (SSI) program, which provides, by itself, a level of income almost at the poverty level for elderly couples; and private pensions expanded rapidly. Although the overall poverty rate for the elderly continued to decline in the face of rising poverty for some other groups, the the rate of poverty has remained high for some aged persons--the very old, the elderly living alone, and elderly blacks.

3. <u>Poverty Among Children</u>

The poverty rate for children has consistently been higher than that of of the population in general. In 1982, over one in five children under 18 years of age (21.3 percent) was poor. The poverty rate among children was 54 percent higher than its 13.8 percent low point in 1969.

The poverty rate for children in female-headed households was much higher (56 percent) than that of children in male-headed families (13 percent). The growth in the number of female-headed families combined with the high incidence of poverty among such families has helped to keep the poverty rate for children high. Since 1959, the proportion of children living in female-headed families has more than doubled--from 8.9 percent in 1959 to 19.4 percent in 1982. In 1982, every other poor child lived in a female-headed family, compared to about one in every four poor children in 1959.

The more recent increase in the incidence of poverty among children has been the result of more two-parent families joining the poverty ranks--presumably as a result of the recession. Children in two-parent families accounted for about 70 percent of the increase in poverty among children since 1978.

III. CAUSES FOR LEVELS AND TRENDS IN POVERTY

As is true for all complicated social phenomena, the causes of poverty and trends in its development are hard to explain. One obvious way to begin such an analysis is to examine the main sources of income to the poor.

Poverty discussions often give the impression that the poverty population consists of the same people from year to year. Moreover, reported year-to-year variations hide substantial numbers of the overall population, who move into and out of poverty over a period of years. Recently released reports of longitudinal studies conducted by the University of Michigan (Panel Study of Income Dynamics) have indicated that over a 10-year period between 1969 and 1978, 25 percent of the population was poor at least one of those years. About one percent of the population was poor during the entire period, and about five percent were reported poor in five out of seven years. These studies identified the principal causes of movements into and out of poverty as changes in family composition (divorce, marriage, birth of a child, departure of a child, or the entrance of additional family members into the work force).

In addition, during the period under study, performance of the economy and the size of government transfer programs have affected wages, work-related benefits, and need-tested benefits, all of which help determine the number of the poor. Changes in demographics and living arrangements also figure heavily in explaining past poverty trends.

A. Effects of Changes in the Economy on Earnings of the Poor

On the surface, the trend in poverty over the past 24 years mirrors closely conditions in the economy during that period. The rapid economic growth of the 1950s and 1960s boosted the standard of living for all Americans--low income as well as high income. Since the official measure of poverty is "absolute," rising productivity pushed up standards of living across the board, and the share of the population left below the poverty line declined. However, economic stagnation of the 1970s halted the decline in the incidence of poverty. Real wage growth was negative on average during the decade overall, and real family median incomes also declined. The proportion of families in poverty totaled about the same near the end of the decade as it was at the beginning. Then in January 1980, the economy began a decline, which after a brief reversal dropped into the worst downturn since the Great Depression. During this time, the rate of poverty rose markedly.

B. Government Transfers and Elderly Poverty

The rate of poverty for the elderly showed a dramatic decline over the 24-year period for which such data have been tabulated. From 35.2 percent in 1959, substantially above the rate of other persons, the rate of poverty for the elderly has dropped steadily until in 1982 it reached 14.6 percent, about the same as the overall rate. The growth in Federal Government transfer payments to the elderly is the primary reason for the general decline in the rate of poverty for the elderly. Other sources of income for the elderly grew as well, particularly private pension benefits, which have increased rapidly since the end of World War II. The Social Security program itself had the most effect. Without income from Social Security, over one-half of the elderly would be poor.

Social Security payments increased over the entire period for a number of reasons. These monthly checks to some 35 million persons (two-thirds of whom were aged) now provide inflation-proof income. The major increases in Social Security came as a result of the following:

1. Periodic ad hoc benefit increases during the 1960s which culminated with the largest increases ever in the early 1970s. Congress increased Social Security benefit levels five times in the late 1960s and early 1970s. These five increases, ranging from seven percent in 1965 to 20 percent in 1972, raised the benefit base by a cumulative 84 percent. The result was that when the first automatic cost-of-living adjustment (COLA) occurred in 1975, it was calculated at a higher base.

2. The enactment of an automatic COLA in 1972. Originally touted as a conservative change that would make it less likely that the Congress would seek periodic increases during election years, this change resulted in large-scale increases in benefit levels during the mid-to-late 1970s and early 1980s. These increases, which permanently increased the base for all subsequent changes, were tied to increases in the consumer price index (CPI). Thus, during the latter half of the 1970s, when inflation rates were highest, the purchasing power of recipients of Social Security was fully protected and keeping the elderly from falling into poverty. At the same time, however, the standard of living of many working people deteriorated as increases in wages failed to match increases in prices. The poverty threshold, tied to the CPI, thus outstripped increases in earnings, and more non-elderly earners fell into poverty. The weak economy from 1980 to 1982 led to increasing poverty rates among families with working members, while the number of elderly in poverty stabilized.

C. The Effect of Changes in Earnings and Transfers on Children

The 1979-1982 increase in the rate of poverty was sharpest among children in male-headed families. The poverty rate for children in such families, although below the overall rate, climbed 53 percent from 1979 to 1982, reaching 13 percent. The poverty rates for children in female-headed families, always high, rose 15 percent in the same period, reaching 56 percent.

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The 1982 rate of poverty for female-headed families was more than two and one-half times that of all families. Of all children living in poor families, 52 percent were in female-headed families.

Although female-headed families no longer are the fastest-growing poverty group, their problems seem to be the most intractable. For many of these, particularly those who rely on governmental transfer programs for their basic sustenance, even a strongly rebounding economy could not be expected to provide much help. Of the 3.2 million female-headed families with children in poverty, about half get most of their income from income transfer programs. Except for Alaska, no State provides a level of assistance through its Aid to Families with Dependent Children (AFDC) program which takes families up to the U.S. official poverty threshold. In fact, over the past 10 years, the real level of AFDC assistance has declined as inflation has eroded purchasing power of AFDC levels, which are decided by States and lack automatic adjustments for rising prices. In some areas the decline in purchasing power has cut the real value of the benefit by as much as one-third. For example, in New York City, the maximum benefit level for a three-person AFDC family in September, 1983 is $515, compared to $766 (in July 1983 dollars) 12 years earlier. Since food stamps do not count as income for poverty purposes, adding the value of this indexed transfer program has no effect on reducing the number counted as poor, even though it reduces need among the poor.

The recent cuts in the budget AFDC are likely to have depressed the incomes of female-headed families in poverty. The new AFDC rules prevent sustained welfare assistance to families (female-headed or not) who have earnings. These changes also reversed two decades of policy concerning assistance to the poor. Since large numbers of family heads work nearly full time and yet are unable to earn an income equal to the poverty level, AFDC assistance had been considered appropriate for such a family. The recent changes countered that policy. Furthermore, these amendments reversed a policy tenet held for a number of years that those who work should always receive more income than those who do not.

Defenders of these changes have argued that participation in the welfare programs constitutes a "welfare trap" from which one should be encouraged to extricate oneself and that continued dependence on welfare saps the initiative a person might have to work himself or herself out of poverty. The proponents of welfare cuts argue that high levels of welfare payments actually increase the incidence of poverty among working-age adults because they constitute a disincentive. Furthermore, the basic welfare program for working-age adults with children is AFDC. This program for the most part is limited to one-parent families--usually with female heads. Thus the AFDC program has been said to induce some poor families to split up in order to qualify for cash help.

IV. PROPOSALS TO REDUCE POVERTY

One overriding conclusion of any analysis of poverty is that fluctuations in economic growth bear most directly on the extent of such hardship. This conclusion is supported by analyses of the changes in poverty during the past 20 years as well as by preliminary analyses of the effect of the 1981-1982 recession. Through overall fiscal policies designed to promote economic growth, the Congress has taken actions, which, if successful, will improve the status of people in poverty and will facilitate movement out of poverty through expanded work and earning opportunities. In addition, the Congress has recently enacted a new program of job training to assist poor working-age adults improve their work skills and enhance their earnings capabilities.

Changes in the income tax laws could increase after-tax incomes of those in poverty who pay income taxes although it would not reduce the officially measured number in poverty, because measurment is based on before-tax income. Federal income and payroll taxes have increased from $35 in 1978 to $440 in 1983 for a family of three with earnings equal to the poverty threshold. This represents an increase in taxes from 0.7 percent to 5.5 percent of income, and results partly from the effect of inflation adjustments on the threshold itself. In terms of aggregate revenue loss per dollar of benefit to poor taxpayers, the two most effective tools to reduce the tax burden of the poor are the earned income credit (EITC) and the zero bracket amount (ZBA). The EITC is phased out for incomes above $10,000 and, therefore, all of the benefits from increasing the credit go to people with incomes below the phaseout. The credit is available

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only to persons who support a child, but it is not increased for family size; therefore, it does not raise the tax entry point for childless persons, nor does it raise the taxable threshold for large families above that for small ones. If it were extended to poor workers without children, or adjusted for family size, it would provide extra cash aid to more of the poor.

Increasing the ZBA is also a relatively cost-effective way of providing tax relief concentrated on lower-income people because the tax reduction does not go to the taxpayers who itemize their deductions. However, married couples receive the same ZBA regardless of their family size; therefore, it, too, is not a very good way of providing extra relief to larger families. Sizable increases in the ZBA would be needed to raise the tax-free incomes of single people and married couples to the poverty level (a $2,000 increase for single people to $4,300 and a $1,400 increase for married couples to $4,800).

Substantial increases in the personal exemption would be necessary to raise the tax-free income level for large families up to the poverty level for them. The differences between the poverty lines for four- and five-person families is almost $2,000, and it is over $1,600 between five- and six-person families. Therefore, a personal exemption of around $1,800 would be needed to provide the difference in tax-free income levels between four-, five- and six-person families that would correspond to their respective poverty lines. All of these options would be expensive in terms of tax revenue foregone--for both the poor and the many nonpoor tax filers who would benefit.

Other options for reducing poverty concern actions the Congress might take through expanded or better-targeted income transfer programs. Before discussing these possibilities two points should be made: (1) These proposals would increase Federal budget outlays; and (2) Increased income transfers of certain types, by their very nature, create disincentives to work. They are also alleged to affect family stability, although the extent to which this happens is unclear. In any event, tradeoffs must be made. Value judgments ultimately determine the desirability of income redistribution as a national goal. It is beyond the scope of this analysis to estimate the budget costs of these proposals, and there has been no attempt to assign priorities to them.

Changes in the demographic composition of the population also will continue to affect what happens to the poverty population. If the growth rate of female-headed families does not decrease, their numbers may swamp other efforts to alleviate poverty. Furthermore, as the population ages and lives longer, the number of single women over age 75--a group with a very high poverty rate--will increase.

Some possible changes in Federal transfer programs would provide additional income to the poor but would have no effect on the poverty rate as measured. Cash transfer programs might be increased to provide additional income to certain groups, but if cash benefits were not increased enough to bring the poor up to the official poverty threshold, the poverty rate would not be reduced, although the "poverty gap" would be narrowed. Furthermore, if food stamp benefits were increased, neither the official poverty gap nor the poverty rate would be affected, since food stamps are not counted as income--although the poor clearly would have more disposable income. This is not to suggest that the Congress may not want to consider such changes as being most helpful in reducing the need. But the current official poverty measures would not reflect such changes.

Additional spending for transfer programs would have the greatest effect on reducing poverty if directed at specific groups of the population. For example, increases in social benefits for unremarried widows and widowers would target additional income to a group of the elderly with a high rate of poverty. In addition, the Federal SSI program, which already provides income almost up to the poverty line for poor elderly couples, could be liberalized to guarantee a poverty line income for all the aged. However, a general boost in Social Security would not lower poverty substanstantially, because only one-tenth of recipients are poor after receiving current benefits.

Similarly, a general increase in unemployment compensation (UC) outlays would not reduce the official poverty rate subst..tially because fewer than one out of ten UC claimants is poor. Additional UC outlays for the longterm unemployed who did not receive UC in the last year would, however, have a more target-efficient effect. About two out of five of these individuals were classified as poor in 1982. A special unemployment assistance program for individuals in this category who had substantial work experience in the last three years, for example, could have a greater effect on the official poverty rate. One could also enhance this effect by applying a family income test, but this might stigmatize the program in the eyes of some, by making it similar to welfare.

These changes, while adding to budget expenditures, would be notably less controversial than proposals for increasing transfer payments to younger persons who are poor. Proposals to reform the welfare assistance programs by expanding eligibility for non-elderly adults and children have surfaced over the past 15 years, have been vigorously championed by Republican and Democratic administrations alike, and have failed of enactment. In 1981, however, Congress enacted significant AFDC changes to narrow eligibility and to restrict benefits to those who do not work at all. One possible change to direct additional benefits to the poor would be to restore the so-called "work incentive bonus," which permitted AFDC-eligible persons to receive declining benefits as a supplement to earnings.

Even more controversial would be proposals to enact various basic changes in these programs or replacements for them. Ideas of this sort which have been proposed in the past include: a program of children's allowances, a negative income tax which would provide benefits through the tax system to all the poor regardless of household composition or source of income, and a requirement that States establish an AFDC income floor that would guarantee all poor one-parent families a minimum income equal to a particular proportion of the poverty threshold (most likely lower than 100 percent).

In summary, the recent economic recession and cuts in social welfare programs have induced a rise in the rate of poverty in the United States. Continued economic recovery could be expected to relieve these conditions for some of the poor--those able and willing to work. Changes in the income tax laws could be designed to increase after-tax income of the poor who have earnings. For those with no close attachment to the work force, income transfer program increases could be directed to those most in need. All such policy changes, whether income tax relief or social welfare spending increases, would put additional pressure on the Federal budget deficit and would be decided on a range of grounds, some beyond those discussed here.

University of Wisconsin-Madison
Institute for Research on Poverty

IRP **Focus**

Poverty in the United States: Where do we stand?

The Institute for Research on Poverty submitted an agenda for poverty research in a competition in 1981 issued at the request of the Department of Health and Human Services. Although the Institute's agenda received the most points from the outside review panel, HHS chose not to award any funds. This brief overview of poverty policy and its results is drawn from our submission.

Eugene Smolensky, Director
Institute for Research on Poverty

How much poverty?

With the passage into law of the Economic Opportunity Act of 1964, our nation declared its intent to wage war not only on the unacceptably low levels of living endured by a large segment of the nation, but also upon the obstacles that prevented this group from sharing in the prosperity enjoyed by the majority. The Institute for Research on Poverty was established by the Office of Economic Opportunity in 1966 as a national, university-based center to study the nature, causes, and consequences of po[illegible] and the policies by which to eliminate it. As such it [illegible] been well situated to monitor the progress that has been made in that war.

Enormous strides have been made in raising the consumption opportunities of the population. The largest social insurance programs (Social Security, Railroad Retirement, Unemployment Insurance, Workers' Compensation, government employee pensions, Medicare, and veterans' pensions) and the major welfare programs (Aid to Families with Dependent Children, Supplemental Security Income, food stamps, Medicaid, and public housing) have succeeded in dramatically reducing the percentage of those living in poverty (see Table 1).

Though progress has manifestly been made in raising the absolute standard of living of the poverty population, no equivalent progress is evident in their market incomes (see box for explanation of how poverty is measured) or their incomes relative to the remainder of the population. No marked reduction in earnings inequality or in family income inequality has occurred. In fact, the proportion of people whose market incomes are below the poverty line has fallen only 6.1% in absolute terms since 1965, and in relative terms has actually increased by 12.2% (see Table 2). We conclude therefore that government transfer policy has played the single most important role in reducing measured poverty. Without the growth in transfers, measured inequality would have increased. The progress that has been made has therefore carried a large and increasing price tag in budgetary cost (Table 3). In real terms budgetary costs have tripled, and doubled their ratio to the gross national product. Total expenditures for fiscal 1981 equaled 10% of GNP and just under half the total federal budget. (The second article in this issue of *Focus* discusses the shift in budget policy now being carried out by the Reagan administration.)

One further dimension of poverty is its duration, for if poverty is a transient experience of the many, the policy response required would be quite different from that needed if poverty remained a persistent fact of life for a small group. Here the findings have been mixed: income mobility (as measured by income including transfers) is quite large, with an enormous amount of churning of households in and out of poverty. That poverty is often a transient phenomenon should be a hopeful sign. However, studies of earnings mobility show that a majority of the poor have permanently low earnings; thus progress has been more a matter of eligibility for government programs than of individual advancement. Yet there is evidence that earnings mobility from one generation to the next is increasing. In particular the intergenerational mobility pattern of blacks is now similar to that of whites.

Factors affecting the amount of poverty

Five factors appear to account for most of the trends in poverty since 1965: government transfers, manpower and employment policies, macroeconomic conditions, demographic change, and changing education.

Government transfers

As mentioned above, government transfers have been chiefly responsible for the substantial reductions in income poverty. The various income maintenance programs now in place have been enacted at various times and provide support to different groups. Although they are often referred to collectively as a system, it is certainly not a unified one. There are separate programs for single-parent families; veterans; the aged, blind, and disabled; the unemployed; and the working poor. The impact on different demographic groups has been disparate, with some groups faring better than others.

Measuring Poverty

Because poverty and inequality are complex concepts, they cannot be summarized in a single measure; hence a set of measures is necessary. Income is measured three ways. (1) *Census income* includes money wages and salaries, net income from self-employment, social security income and cash transfers from the other major government programs, property income, and other forms of cash income such as private pensions and alimony. (2) *Adjusted income* is census income adjusted to include all transfers (including those received in-kind, such as food stamps and Medicaid), to exclude taxes paid, and to account for income underreporting. It gives a more complete estimate of spending power. (3) *Market income* (pretransfer income) is census income minus government cash transfers, providing a benchmark against which the effect of transfers can be measured.

The differences in these measures allow us to disentangle from the perspective of absolute living standards, some of the various factors that underlie changing trends in economic hardship. But economic well-being is at its heart a comparative concept in any society, particularly one in which living standards are increasing: those whose incomes fall sharply below the prevailing levels in their society will be considered poor by the standards of that society no matter what their absolute incomes may be. Thus, in addition to an official poverty threshold we provide relative income thresholds, often a fixed percentage of the median income. Using such measures we can examine what has happened to poverty in the last seventeen years.

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Table 1

Persons Living below Absolute Income Thresholds, 1965-1980
(Percentages)

	Census Income	Adjusted Income	Market Income
1965	15.6	12.1[a]	21.3
1968	12.8	10.1	18.2
1970	12.6	9.4	19.8
1972	11.9	6.2	19.2
1974	11.6	7.8	20.3
1976	11.8	9.7	21.0
1978	11.4	8.4	20.2
1980	13.0	6.1	20.0
Percentage change	16.7	-49.59	-6.10

Sources: S. [illegible] and R. Plotnick, "The War on Income Poverty: Achievements and Failures," in *Welfare Reform in America*, ed. P. Sommers (Hingham, Mass.: Martinus Nijhoff, 1982); adjusted income for 1968-74 is from T. Smeeding, "Measuring the Economic Welfare of Low Income Households and the Antipoverty Effectiveness of Cash and Noncash Transfer Programs," Ph.D. diss., Department of Economics, University of Wisconsin-Madison, 1975, and T. Smeeding, "The Antipoverty Effectiveness of In-Kind Transfers," *Journal of Human Resources* 12 (1977): [illegible]. Adjusted income for 1976 and 1980 are from Smeeding, "The Antipoverty Effect of In-Kind Transfers: A 'Good Idea' Gone Too Far?" *Policy Studies Journal*, forthcoming.
Note: Measurements of income explained in box, Measuring Poverty.
[a]Estimated from Smeeding's results for 1968.

Table 2

Persons Living below Relative Income Thresholds, 1965-1978
(Percentages)

	Census Income	Market Income
1965	15.6	21.3
1968	14.6	19.7
1970	15.1	20.8
1972	15.7	22.2
1974	14.9	22.9
1976	15.4	24.1
1978	15.5	23.9
Percentage change	-0.6	+12.2

Sources: See Table 1.
Note: The relative thresholds used are 44% of the median.

Table 3

Estimated Total Expenditures for Major Income Support Programs, Fiscal Year 1981
($ Billions)

Program	Expenditures
Total	$294.8
Social Insurance	*217.0*
Cash benefits	
Old Age and Survivors and Disability Insurance and Railroad Retirement	143.6
Special compensation for disabled coal miners	1.0
Unemployment Insurance	18.8
Veterans' and survivors' service-connected compensation	7.5
Workers' Compensation	4.7
Total	[illegible]6
In-kind benefits	
Medicare	17.4
Refundable Tax Credits	
Earned Income Tax Credit	*1.0*
Welfare	*75.0*
Cash benefits	
Aid to Families with Dependent Children	12.7
Supplemental Security Income	8.5
Veterans' and survivors' non-service-connected pensions	4.0
General Assistance	1.3
Total	26.[illegible]
In-kind benefits	
Food Stamps	[illegible]
Child Nutrition and other Department of Agriculture food assistance	4.2
Medicaid	27.6
Housing Assistance	5.5
Basic Educational Opportunity Grants	2.4
Total	49.4

Source: [illegible], ed., *Income-Tested Transfer P*[illegible] (New York: Ac[illegible] Press, 1982), Chap. 1.

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The elderly in particular have benefited. Table 4 shows that in 1965, 87.6% of households headed by an aged person received cash transfers; by 1978 almost all (95.9%) received transfers. These benefits not only constituted a greater percentage of household income than they did for other groups, but were also most effective in reducing poverty.

For households headed by nonaged men, much of the decline in poverty during the 1965-1978 period is also accounted for by the increased transfers. About a quarter of such households were receiving transfers in 1978. Households headed by nonaged women form a sharp contrast. In 1965 their poverty incidence was similar to that of the aged. By 1978, the average cash transfer of an aged household, in real terms, had increased by 50% but that of a nonaged female recipient had increased only 13%. Nonaged females in 1978 had the highest incidence of posttransfer poverty—29%, over 4 times that of nonaged males (Table 4). The ratio of the median incomes of female-headed to male-headed households also declined between 1965 and 1978.

Although the incidence of poverty has declined for all groups since 1965, it is still more than twice as high for blacks and Hispanics as it is for whites. Again there are differences among groups. The incidence of poverty for persons living with nonaged, nonwhite men, for example, was more than halved, declining from 35% in 1965 to 13% in 1978. For persons living with nonaged, nonwhite women during the same period, in contrast, poverty declined only from 66% to 53%. Even at the highest rates of poverty reduction experienced during the late 1960s, parity with white poverty levels or median incomes is still far away.[9]

Manpower and employment policies

A basic premise of the war on poverty was that the ultimate solution of the problem would come through increasing the earnings of those at the bottom of the income distribution. This hope was based on the assumptions that sufficient jobs existed—or could be generated—in the private economy; that lack of education and training were at the root of the problems of the poor; and that antipoverty strategies should be consistent with the American work ethic. Government policies were therefore directed at fostering high employment and economic growth, providing education and training programs for those with inadequate skills, and remedying the flaws in the labor market (such as discrimination and lack of information) by legislation and services (e.g., antidiscrimination legislation

Table 4

Income Maintenance Transfers, Household Income, and Poverty among Demographic Groups, 1965 and 1978

	Nonaged Male Head[a]	Nonaged Female Head[a]	Aged Male or Female Head[a]	All Households
A. Percentage of all households receiving any cash transfer[b]				
1965	[illegible]	[illegible]	87.6	[illegible]
1978	[illegible]	[illegible]	95.9	41.5
B. Probability of pretransfer poor households being removed from poverty by cash transfers[b]				
1965	[illegible]	[illegible]	[illegible]	[illegible]
1978	[illegible]	[illegible]	[illegible]	[illegible]
C. Percentage of households with income less than the official poverty line after the receipt of cash transfers				
1965	[illegible]	[illegible]	[illegible]	[illegible]
1978	[illegible]	[illegible]	[illegible]	14.0

Source: S. Danziger and R. Plotnick, "Income Maintenance Programs and the Pursuit of Income Security," Annals of the American Academy of Political and Social Science 453 (January 1981).

[a]Nonaged are less than 65 years of age; aged are 65 years or more.

[b]Cash transfers include social security, railroad retirement, unemployment compensation, workers compensation, government employee pensions, veterans pensions and compensations, AFDC, SSI (Old Age Assistance, Aid to the Blind, and Aid to the Partially and Totally Disabled in 1965), and general assistance.

and the Employment Service). This hope and philosophy led to the Manpower Development Training Act of 1962, the Elementary and Secondary Education Act of 1965, and such programs as Head Start, Neighborhood Youth Corps, and Job Corps. Although the postprogram earnings of participants in these training programs often exceeded program costs, the increased earnings did not play a large role in reducing poverty. Important questions remain regarding the types of training that are most appropriate for various kinds of people under various labor market conditions.

The earlier efforts, with their emphasis on education and training, gave way to emphasis upon direct job creation under the Comprehensive Employment and Training Act (CETA) of 1974, and government subsidies to employers of the disadvantaged. Recent demonstrations of public employment strategies indicate that properly designed employment programs can substantially increase the employment and earnings of some groups among the disadvantaged,[6] but they have yet to be tried on a national scale.

Tax credits, such as the New Jobs Tax Credit of 1976, which gave employers an incentive to hire low-skilled workers and substitute labor for capital, the WIN tax credit (a Work Incentive Program) for employers who hired welfare recipients, the Targeted Jobs Tax Credit, which subsidized the wages of certain targeted groups of workers (such as disadvantaged veterans of the Vietnam war), have attempted to increase earned income in the private sector. They have not been in use long enough for their effects to be measured.

Economic conditions

Macroeconomic conditions have a varied effect on the extent of poverty. It is axiomatic that there are more poor in bad times than in good. Until recently it was also assumed that economic growth would reduce poverty, but there is no evidence that in the face of continuous economic growth the earnings of the poor will grow sufficiently to enable them to escape poverty without government assistance.[7]

There is evidence, on the other hand, that reducing unemployment has more of a poverty-reducing effect than does economic growth. Since labor income provides 70% of the income of the pretransfer poor and near poor, unemployment drops many near-poor households into poverty either through lost jobs or reductions in hours worked. It has been estimated that an increase of only 10% in the unemployment rate leads to roughly a 2.5% increase in the incidence of pretransfer poverty.[8] Further, unemployment may contribute to higher rates of poverty in the future, because youth who fail to obtain jobs miss opportunities for on-the-job training and for occupational advancement.

Inflation affects the economic welfare of all. However, the working poor suffer less from inflation than from unemployment. Hence policies to combat inflation through higher unemployment always adversely affect low-income workers—especially those seeking jobs. Those among the poor who are not expected to work have some protection from inflation. Social security and food stamp benefits are indexed to the overall Consumer Price Index, which provides recipients with larger benefits as prices rise. AFDC is indexed in California. Elsewhere its real value has steadily declined with inflation.

Demographic change

With the aging of the population and the rising incidence of divorce and separation, those demographic groups which have been identified as being at high risk of poverty are growing, thereby exacerbating the poverty problem. These changes resulted as (1) the character and size of families and households, which have been altering for some time, began to change ever more rapidly; (2) the "baby boom" of the 1950s entered the labor force, and (3) substantial migrations of people took place.

Marriage ages rose rapidly; divorce and separation rates continued their upward movement, fertility rates plunged in the early 1970s and have remained low. As a result, average household size decreased, and the fraction of one-person and nonfamily households grew. Changes in age

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and household composition among poor and nonpoor alike affect income transfer programs, since eligibility and benefits are geared to age, age-related needs, and living arrangements. Further, these transfer programs themselves can influence demographic behavior, particularly choices of living arrangements. (For instance, public assistance payments usually rise with recipient unit size at a decreasing rate per person; there is some evidence that this has encouraged larger households to fragment into smaller ones, or has led families to shift dependents into units with lower incomes.)

The baby boom has had adverse effects on the economic fortunes of young workers—on their earnings, unemployment experience, and rate of advancement. Young families have been under pressure to put off having children, and those women who choose motherhood often attempt to combine the care of children with a job. Marital strains are high, divorce is frequent, and there is greater frequency of suicide, crime, and a sense of alienation. Ironically, when the products of the baby boom are ready for retirement, they will be supported by the much smaller generation of the 1970s (the baby bust)—a fact that has generated much anxiety about the solvency of the social security system.

At the present time demographic changes are thought by some to be largely responsible for the increase in pretransfer inequality that we have documented. A larger proportion of households are now headed by the young, the old, and women without spouses—all groups with below-average incomes. But these changes alone do not account for the failure of inequality to decline. In fact recent studies have shown that inequality within specific demographic groups, including nonaged married men, has increased. In addition, inequality between cohorts has also increased: the ratio of the earnings of the young and of the elderly to those of prime age has fallen.

At the same time that these household trends have been taking place, shifts of population on a large scale have been occurring. The nation's oldest and largest cities have, for decades, been undergoing a steady loss of their population, employment, and industry to the expanding suburbs and to new, fast-growing metropolitan areas in the South and West, while low-income people—largely blacks—have moved from the rural South to metropolitan areas in the North and, more recently, in the South.

These migration patterns have had both socioeconomic and racial aspects that have greatly compounded the strains on our cities. One consequence has been increased attention to the implications for migration patterns of proposed urban programs such as the ghetto enrichment policies suggested by the National Advisory Committee on Civil Disorders (1968) and the call for job incentive programs in central cities issued by the President's Urban and Regional Policy Group (1978). Such programs, it has been argued, would fuel the suburban movement of whites ("white flight") and black immigration, intensifying the crisis they were intended to alleviate. School desegregation programs were viewed with similar apprehension.

Education

Schooling has long been thought to be the keystone of economic advancement, and public policy has thus sought to encourage more schooling as a means to provide individuals with economically valuable skills and credentials. Research results over the last decade, however, have led to some pessimism about the value of higher education for increasing mobility. Recent analysis of sibling data has led to the conclusion, nonetheless, that four years of high school raise an individual's occupational status modestly, and raise annual earnings by between 15% and 25%. Completion of four years of college raises occupational status substantially, both among men in general and among men with identical test scores from the same family, and raises earnings by 30% to 40%.

Who are the poor?

We have suggested that reductions in poverty since 1965 have been attained primarily through growth in the scope and effectiveness of government transfer policies. Lack of progress in reducing poverty that results from low market incomes makes it important to identify the demographic groups most likely to be poor. Table 5 highlights the characteristics of those who were poor before transfers in 1976.

These groups are most likely to be poor:

1. *The aged.* Almost half the pretransfer poor live in households whose heads are 65 years of age or over. Since in our society the aged are not expected to work, this group should not be regarded as a labor market problem. Indeed, they are no longer even a transfer policy problem, in the sense that social security, Supplemental Security Income, food stamps, Medicare, and Medicaid now provide sufficiently generous benefits to move all the aged receiving them over the poverty line. (The changes now being brought about by cuts and shifts in these programs may change the situation drastically, as may raising the retirement age for social security.)

2. *The disabled.* Next to the aged, the disabled represent the largest group in pretransfer poverty. The likelihood of significant numbers of them escaping poverty through enhanced earnings is also low, although subsidized or sheltered employment may mitigate the pure transfer burden in some cases.

3. *Single women with children under six.* In 1976, almost 7% of households in pretransfer poverty were headed by women with children under six. Twenty years ago such women were expected to stay home and care for their children, but as more and more married women enter the labor force, it is increasingly expected that single mothers with young children should also work. Although enhanced earnings will help, the likelihood of most of these women earning enough to escape poverty and still afford child care is low.

The poverty of this group is attributable in part to the failure of absent fathers to make child support payments. Programs to ensure that levies on absent parents are enforced should improve the economic status of women who head families.

4. *Male and female household heads who are full-time workers.* Most of the 7.6% of the pretransfer poor in this category are poor because they have few skills, low wages, and/or large families. Since this group already works full time, further labor market work is not a feasible antipoverty device, although programs that increase wages may be effective. Expansion of the Earned Income Tax Credit and/or nonwelfare supplements related to family size—such as children's allowances—would also aid the working poor.

5. *Household heads working less than full time: single persons, male family heads, female family heads without small children.* These groups together account for 21.4% of the pretransfer poor; all are expected by society to work.

For all Americans, poverty varies dramatically by educational attainment, holding region constant (Table 6). Holding education constant, however, poverty varies little across regions, though the Northeast has the highest incidence for each population-sex group. Nonwhite and Hispanic men with less than a high school education are more likely than comparable white men to be poor, before transfers. The differences narrow, however, for those with more than a high school degree, and even reverse for college graduates. Although poverty among women heading households also declines dramatically as education increases, the predicted incidence of poverty among women is much higher at all levels, and the differences by population group are greater. How much of this differential is due to discrimination in wage rates or employment, voluntary differences in labor supply, or differences in experience or other skills remains to be sorted out. Although two traditional policy levers to reduce poverty—assistance to rural out-migrants and greater education—remain relevant, finding or creating jobs and increasing the earnings from those jobs are the most desirable antipoverty strategy for all who are able to work.

6. *Students.* The considerable number of students among the pretransfer poor is largely an artifact of the failure of the Current Population Survey to record transfers received from parents, student financial aid, or loans. Even those students poor today are not likely to remain poor after they graduate.

Table 5

Causes of Poverty for Households with Market Incomes below the Poverty Line, 1976

Description of Household	Number (millions)	Percentage of the Poor
Aged head (65 years and over)	9.761	[illegible]
Disabled head	2.542	12.2
Female head with a child under 6 years	1.409	6.8
Persons working full time full year	1.585	7.6
Single persons working less than full time full year	1.881	9.0
Male head working less than full time full year	1.465	7.0
Female head no children under 6, working less than full time full year	[illegible]	5.4
Students	[illegible]	6.2
All pretransfer poor households	[illegible]	100.0

Source: Calculated by Institute staff from the March 1977 Current Population Survey.

Note: Classification is mutually exclusive [illegible] hierarchical. Any household who fits in more than one category has been classified only in the one closest to the top of the table.

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Table 6

Predicted Incidence of Poverty among Nonaged, Able-Bodied Household Heads, 1978
(Percentages of Appropriate Population Group)

A. Incidence of market income poverty by years of schooling completed

	Less than 8	8-11	12	13-15	16
White male[a]	10.85%	6.85%	3.26%	2.64%	2.36%
Nonwhite male[a]	13.69	12.72	4.67	3.04	1.33
Hispanic male[a]	12.30	9.23	8.27	3.33	1.22
White female[b]	40.11	52.22	24.91	16.02	5.81
Nonwhite female[b]	52.55	65.00	37.75	22.73	10.18
Hispanic female[b]	76.61	73.25	50.82	42.65	24.11

B. Incidence of market income poverty by region

	Northeast	Northcentral	South	West
White male[c]	6.85%	3.69%	4.41%	5.30%
Nonwhite male[c]	12.72	9.63	8.36	11.37
Hispanic male[c]	4.23	4.02	7.10	4.73
White female[d]	52.22	49.65	44.10	38.82
Nonwhite female[d]	65.00	58.30	63.54	59.05
Hispanic female[d]	73.29	67.90	52.70	51.45

Source: Estimation of logistic regressions, from March 1979 Current Population Survey, by Institute staff.

[a]Head lives in a metropolitan area in Northeast region, is 35-54 years of age, not disabled, in a family of three or four persons.

[b]Same characteristics as "a" except woman is divorced or separated.

[c]Head lives in metropolitan area, has completed 8-11 years of school, is 35-54 years of age, not disabled, in a family of three or four persons.

[d]Same characteristics as "c" except woman is divorced or separated.

What can be done about the poor?

- Approximately one-third of household heads with poverty-level market incomes are expected to work. This suggests a role for employment policy.
- Of the remaining two-thirds, most but not all are brought out of poverty by transfers; gaps and inadequate coverage persist.
- The incidence of poverty remains high for certain groups—minorities, households headed by women, the sick, and the disabled. They face difficulties in both the labor market and the transfer system, and research must reflect that interdependence.

What's wrong with our transfer programs?

In view of the fact that the transfer system (which includes both social insurance and welfare programs) has been the chief government instrument for alleviating poverty, and because the Institute for Research on Poverty has special expertise in analyzing policy and programs in this area, we focus in this section on the flaws in the transfer system.

For the past 15 years many analysts have urged replacing the transfer system with a uniform, universal scheme. Nevertheless, the policy response to dissatisfaction with the system has been to continue the categorical, incremental approach that has characterized the system since its inception. This approach reflects the general reluctance to provide transfers to employed and potentially employable persons. Added to this reluctance is the determination on the part of the current administration to reduce government's role in providing for the welfare of its citizens. Although less money will be available to accomplish the goals of the system, much can still be done.

Defects in design

Coverage. Gaps in coverage have long been apparent. In 1979, nearly one-half of the total unemployed were ineligible for benefits from unemployment insurance. Unemployed fathers are ineligible for AFDC benefits in 24 states. Even in states where they are eligible, participation has been low — only 15% to 30%.[5] The Food Stamp program, enacted in 1964 and amended in 1971, 1974, and in 1977, is the sole income maintenance program which offers universal coverage, including intact families with a working member, single adults, and childless couples.[6]

While some low-income persons do not receive any assistance, others are served by a multitude of programs administered by many different agencies with little or no coordination of objectives or operating procedures. The Reagan administration has called public attention to overlaps between Social Security and SSI. A more striking example is the coverage of disability. Over 80 public programs presently provide protection against the risk of disabling illness or injuries in the form of cash, services, or subsidies.[6] Despite this proliferation of public programs, approximately 20% of the nonaged disabled remained poor in 1977.[7]

Adequacy. The adequacy of social security benefits, food stamps, SSI, and a number of other programs depends on their being linked to the CPI, so that they rise with the cost of living. Not all programs are indexed, however. Recently, the adequacy of the AFDC system has come under close examination. Most states refer to the official poverty lines when setting up the minimum standards the poor need in order to get by,[8] but in 1979 only two states set their standards at or above the poverty line, and in no state was the maximum benefit as high as the poverty line.

As mentioned earlier, only in California are AFDC benefits indexed for increases in the cost of living. Over the last decade the real values of AFDC need standards and payment levels have, on average, been eroded by inflation by 27% and 17% respectively. By the common standard of adequacy, AFDC falls short and large differences in benefit levels continue to exist across states.

Accessibility. Estimates of the participation rates of eligible persons in welfare programs range from 45% to 90% and they exceed 75% for only two programs: AFDC and circuit-breaker property tax relief (a rebate on the income tax of a portion of the property tax paid by some low-income groups). For AFDC-Unemployed Fathers, the rate is 15%; for experimental housing allowances, it varies between 26% and 45%; for food stamps, it hovers around 45%.[9] In contrast, participation in the old age insurance programs is virtually 100%. The problem of participation is clearly a major one, but attempts to identify the reasons that people do not or will not participate have met with only limited success.[10]

Efficiency. In administering a social welfare program, efficiency is a matter of spending the money where it will do the most good. The concept of "target efficiency" is often used to judge poverty programs. It measures the proportion of the allocated money that goes to the poor. The higher the proportion, the more efficient the program is deemed to be. But this measure obscures a number of costs, such as work disincentive effects of a high marginal tax rate on the poor. Some of these disincentives are described below.

Adverse incentive effects

Failure of transfer programs to achieve all of their intended goals is only part of the problem. As critical an issue, and one that has received much attention, is the charge that the programs adversely affect economic and social behavior.[11]

Work disincentives. Although, as mentioned earlier, 60% of those who remain poor are not expected to work (e.g., the old) the over 30% who, in the judgment of society, should work, have been the subject of a long-running debate. Both economic theory and common sense suggest that cash payments can induce lower work effort. These disincentives can increase poverty and inequality at the same time that benefit payments decrease them.

Studies have revealed that work effort is adversely affected by marginal tax rates on earned income. Moreover, the responsiveness to tax rates of groups currently aided most by the transfer programs — the aged, disabled, single parents, the poor, the unemployed — is substantially greater than that of able-bodied employed married men who have not reached 65, especially married men living above the poverty line. (Married women also vary the amount of paid work they do much more readily in response to variations in the tax rate.)

Given these strong conclusions on the impacts of tax rates, the high effective rates incorporated into the nation's income support system take on new significance. It is estimated that income transfer programs reduced aggregate labor supply in the late 1970s by about 4.8% per year.[12] The percentage reduction in total economic activity will be less than 4.8%, however, because recipient earnings are well below the U.S. average for all workers.

Effects on savings. In recent years, a large number of researchers have engaged in a spirited debate over the social security-savings nexus.[13] They have reached few firm con-

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clusions, other than that social security may have depressed private savings by a small amount. This disincentive effect probably does little to explain pretransfer poverty among the aged.

Marital instability It is frequently alleged that various government policies encourage marital dissolution. This criticism has been leveled at the income tax, social security, and particularly at welfare programs. The empirical evidence for the proposition is by no means secure.[16] Most of our evidence comes from AFDC, a program in which the earnings of a father are sometimes less than the value of the AFDC cash payments, the food stamps, and the Medicaid for which his family would be eligible if he were to desert them. These perverse incentives may increase marital instability, but even though empirical studies have found a positive relationship between the level of AFDC payments and rates of women heading families, statistically significant effects have been found in only a few cases. The most recent evidence comes from the Seattle-Denver Income Maintenance Experiment (SIME-DIME), a negative income tax experiment run in these two cities. While some analysts have concluded that a negative income tax would increase the rate of marital dissolutions even as compared to the existing AFDC system, others disagree.[17] A reanalysis of the data is now under way.

Conclusion

In 1981 the incidence of poverty in the United States stood at about 6%, but pretransfer poverty and income inequality remained at or above their 1965 levels.

Although many move into and out of poverty each year, a majority of the poor have permanently low earnings.

Most of the reduction in poverty can be attributed to increased transfer payments. Public employment and training policies have given way to private-sector job creation and subsidies, but determining their effectiveness in lowering poverty requires further research. High unemployment, inflation, and various demographic trends have contributed to the poverty problem. However, migration and a reduction in differences in educational attainment have tended to reduce poverty and inequality.

Growing transfer costs raise issues of efficiency, while reduced savings and work effort generate concern over the incentives inherent in the current transfer system.

Only one-third of those who remain poor can be expected to work; the remaining two-thirds are likely to remain dependent upon transfers. This means that no amount of economic growth and expansion of the labor market will serve as a panacea for poverty. And any actions taken to dismantle the transfer system could conceivably wipe out the large gains that have been made in reducing poverty since 1965. ■

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IRP Focus

Poverty in the United States: Where do we stand now?

Two years ago a special issue of Focus *titled "Poverty in the United States: Where Do We Stand?" (5:2, Winter 1981–82) recounted trends in poverty and the growth of income support programs since 1965. In October 1983 the rising number of poor in America prompted the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation of the Ways and Means Committee of the U.S. House of Representatives to hold hearings on the reasons for steady increases in poverty rates since 1978. Among the questions they invited witnesses to address were the relative importance of recession, demographic change, budget reductions, and a ten-year decline in the real level of public assistance benefits in causing increased poverty. This issue of* Focus *summarizes parts of the testimony presented to Congress to assess where we stand now, twenty years after the nation declared its intent to launch a full-scale effort on behalf of the poor.*

The problem of poverty

Before one can discuss probable causes and possible cures, it is first necessary to address the basic questions concerning poverty. How much poverty is there? Who are the poor? How poor are they? And how long do they remain in poverty?

How much poverty?

Poverty has been on the increase in recent years. The Bureau of the Census reports that 15 percent of the population were below the poverty line in 1982, compared to 11.7 percent in 1979, which means that the number of poor persons had increased by more than eight million. The official poverty rate was as high in 1982 as it was in 1966. Do as great a percentage of all persons live in poverty now as when the War on Poverty started? Or are the official numbers misleading?

According to David Stockman, Director of the Office of Management and Budget, and others who testified before Congress, the Census Bureau's measurement procedures do not provide a complete picture: "The total exclusion of any value of noncash assistance when measuring the incidence of poverty is a key reason why measured poverty has not declined during the last decade."[1] He states that in-kind means-tested benefits (such as Medicaid, Food Stamps, school lunches, and housing subsidies), which were relatively insignificant in 1959, by 1973 were providing over half of all means-tested assistance, and by 1982 more than 70 out of every 100 dollars of such assistance was noncash.[2] The census numbers have other drawbacks, noted by others who testified, such as Timothy Smeeding, of the University of Utah. The official statistics do not subtract taxes from income, though taxes affect a household's level of consumption. Further, they fail to distinguish between the private economy's antipoverty performance and the government's contribution, both in the form of social insurance and in welfare.

A better understanding of what has been happening to poverty in the United States is provided by Table 1, presented to the Congressional subcommittees by Sheldon Danziger, Director of the Institute for Research on Poverty.[3] This table gives poverty rates over the period 1965–82, comparing the census measure with other measures that adjust for its deficiencies: pretransfer income, prewelfare income, and adjusted income. (For definitions of these terms and others used to define and clarify the complex concept of poverty, see box.) In every year there is a much higher poverty level under the census income measure than under the adjusted income measure. Nonetheless, all four measures reflect the same pattern over the past fifteen years. Poverty declined sharply from 1965 to the early 1970s, remained fairly stable in the mid-1970s, then in 1978 began to climb rapidly. This pattern is depicted in Figure 1. The difference between

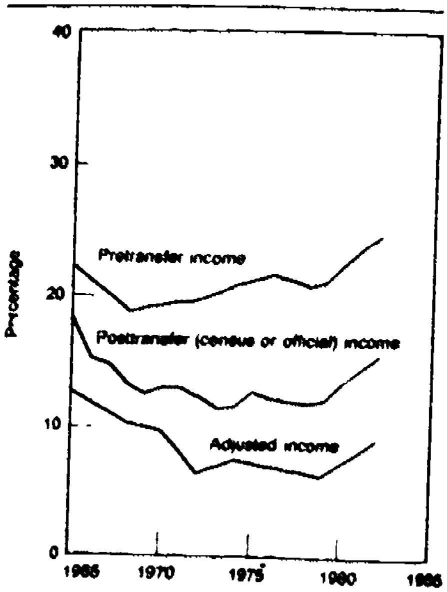

Figure 1. Trends in the Incidence of Poverty among All Persons According to Three Measures of Income

Source: For pretransfer poverty, computations by Sheldon Danziger and Robert Plotnick from the Survey of Economic Opportunity for 1965 and March Current Population Surveys for other years. For posttransfer poverty, U.S. Department of Commerce (Bureau of the Census), *Current Population Reports*, Series P-60, "Consumer Income." For adjusted poverty, Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal*, 10 (1982), 499–521.

pretransfer and posttransfer (census) income shows how important are government cash transfers for the well-being of the population. In 1982 one-quarter of the population had incomes below the official poverty threshold on the basis of their market incomes alone. But after the receipt of cash and in kind transfers, fewer than 10 percent remained poor.

Table 1
The Trend in the Incidence of Poverty among Persons, Selected Years 1965–82

Year	Pretransfer Income (1)	Prewelfare Income (2)	Posttransfer Income (Census Income) (3)	Adjusted Income[a] (4)
1965	21.3%	16.3%	15.6%	12.1%
1968	18.2	13.6	12.8	9.9
1972	19.2	13.1	11.9	6.2
1974	20.3	13.1	11.6	7.2
1976	21.0	13.1	11.8	6.7
1978	20.2	12.6	11.4	n.a.
1979	20.5	12.9	11.7	6.1
1980	21.9	14.2	13.0	n.a.
1981	23.1	15.1	14.0	n.a.
1982	24.0	15.9	15.0	8.8[b]
% Change				
1965–1978	–5.2	–22.7	–26.9	–49.6
1978–1982	+18.8	+26.2	+31.6	+44.3

Source: Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 6.

[a]Adjusted income data are from Timothy Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal* 10 (1982), 499–521.

[b]This is an estimate from Peter Gottschalk and Danziger, "Changes in Poverty, 1967–1982: Methodological Issues and Evidence," IRP Discussion Paper no. 737-83.

[c]Percentage changes for adjusted income data are from 1965–79 and 1979–82.

n.a. = not available

Poverty as measured in relative terms (defined in box; not shown on table or figure) remained 10 to 15 percent above the absolute measures shown in Figure 1. Danziger calculated that pretransfer poverty for all persons, if measured relatively, declined from 21.3 to 19.7 percent between 1965 and 1968, but rose steadily from 1968 until 1982, when it reached 26.5 percent. Relative poverty after receipt of cash transfers declined very slightly from 1965 to 1978—from 15.6 to 15.5 percent—and then rose to 17.8 percent in 1982.

Who are the poor?

Aggregate figures provide only a rough picture of the incidence and extent of poverty. A more detailed examination

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Terms Used in Measuring Poverty

1. *Census income.* Used to draw the official poverty line, census (or posttransfer) income includes money wages and salaries, net income from self-employment, social security income, public assistance income, and other cash government transfers, property income (interest, rents, dividends, etc.), and private transfers, such as pensions and alimony. It does not subtract taxes paid.

2. *Pretransfer income.* Also termed market income or pre-government-transfer income, this concept is census income excluding government transfers but including private transfers such as gifts, alimony, child support, and private pensions.

3. *Prewelfare income.* Prewelfare income is census income minus only cash public assistance programs (means-tested), such as Supplemental Security Income and Aid to Families with Dependent Children. It includes social insurance benefits, such as social security, unemployment insurance, railroad retirement, veteran service related pensions, and black lung benefits, which are not means tested.

4. *Adjusted income.* Census income augmented by the value of such in-kind transfers as Medicare, Medicaid, food stamps, and public housing, subtracting federal income and payroll taxes, and taking into account underreporting of income. Alternate measures for estimating the value of in-kind income (reported in *Focus* 6:1) include "market value" – what the benefit would cost if purchased in the market, "recipient value" – how much cash the recipient would be willing to pay for the benefit, and "poverty budget share" – the proportion of their income that those at the poverty line typically spent on the good in 1960–61, when in-kind benefits were minimal.

5. *Absolute poverty threshold (line).* The official census income level below which households are classified as poor. Based on the assumption that the poor spend approximately a third of their incomes for food, the poverty line originally consisted of three times what the Department of Agriculture in 1955 ascertained to be the minimum food consumption requirement for a family of four. Adjustments are made for different-sized families, and the poverty line is adjusted each year for inflation, as measured by the percentage change in the Consumer Price Index. In 1982 the official poverty line ranged from $4901 for a single person, to $9862 for a family of four, to $19,698 for a family of nine or more.

6. *Relative poverty threshold.* This poverty threshold varies directly with changes in the national median income, adjusted for family size. Those whose incomes are below 44 percent of the median are classified as poor. This figure was chosen so that the count of absolute and relative poor persons for 1965 was equal. It incorporates the same adjustments for family size that are included in the official measure. In 1982 the relative poverty line was about 14 percent higher than the absolute line, or $11,200 for a family of four.

7. *Poverty deficit or gap.* The amount of income required to bring every poor person up to the poverty threshold.

8. *Benefit reduction rate.* The rate at which means-tested benefits are cut back as earned income increases (i.e., the tax rate on benefits).

reveals that some demographic groups are much more likely to be poor than others. The House Ways and Means Committee's staff report, *Background Material on Poverty*, noted: "A person's age, race, sex, family status, and family size are all related to the likelihood of being poor. In 1982, children, blacks, people of Spanish origin, and women were more likely to be poor than the population in general; whites, males, the aged and persons living in married couple families were less likely to be poor."[4] Table 2 divides the poverty population according to household type, age, and geographic location, and compares the numbers of poor in these groups and their poverty rate in 1982 and 1979 (using the census money income measure).

Women and children in households. As Stockman pointed out, the large growth over the past twenty years in the number of people in female headed families who are poor does not result from an increase in their incidence of poverty, but from sheer increase in their number. About one out of every five children in this country is now living apart from one parent, and because of increasing divorce rates, separations, and out-of-wedlock births, it is estimated that nearly one of two children born today will spend part of his or her first 18 years in a family headed by a single mother.[5]

Rudolph Penner, Director of the Congressional Budget Office, stated in his testimony that the number of persons in families headed by a woman with no husband present has increased more than 15 percent since 1978, compared to a 6 percent growth in the overall population. One of the immediate and alarming effects in the growth of this group is the large increase in poverty among all children, which increased from 16.0 percent in 1979 to 21.3 percent in 1982 (see Table 2).[6]

If single-parent families are growing fast, black single-parent families are growing even faster. And if poverty is prevalent among the white single parent households, it is much more so among blacks. The number of poor black families headed by women doubled between 1969 and 1982. These families accounted for 71 percent of all poor black families in 1982, compared with 54 percent in 1969.[7] In 1982 the poverty rate was 35.6 percent for all black persons and 57.4 percent for those living in female headed families.

The major cash welfare program directed at single parents and their children is Aid to Families with Dependent Children. It was created by the 1935 Social Security Act, and conceived of as a small program to aid widows not covered by social security. Though it has been amended and broadened over the years, it has – in comparison with the rest of our social welfare system – remained small. AFDC in fiscal year 1981 accounted for only 17 percent of total welfare expenditures and only 4 percent of total expenditures on income support.[8] The percentage cut in the AFDC budget in the Omnibus Budget Reconciliation Act (OBRA) of 1981 was larger than that for most other transfer programs. The Reagan Administration introduced a gross income limit of 150 percent of each state's standard of need, raised the marginal benefit reduction rate on a recipient's earnings from 67 percent to 100 percent after four months of earnings, set maximum allowable deductions for work and child care expenditures, computed the third of their earned income that AFDC working recipients were allowed to keep (for four months) on the basis of their income after deductions rather than before, lowered the ceiling on assets, and counted stepparent income when calculating the benefit.[9]

Robert J. Rubin of the Department of Health and Human Services stated in his testimony that these changes have reduced welfare rolls. "In all, 408,000 families lost eligibility [for all] benefits and 299,000 lost [some] benefits as a result of the OBRA changes. The changes saved the federal and state governments about $1.1 billion in 1983."[10] And Stockman wrote,

> The dire predictions of those who opposed the gross income cap and limiting of work disregards in AFDC . . . did not come true. Contrary to assertions that wage-earning recipients would quit their jobs to stay on welfare, the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 Reconciliation Act – 18 percent.[11]

But although the AFDC recipients whose benefits were reduced or terminated did not, by and large, quit work and return to welfare, they did experience significant losses in total income. Preliminary findings of studies being carried out jointly by the Institute for Research on Poverty and the Wisconsin Department of Health and Social Services suggest that less than 10 percent of the AFDC recipients in Wisconsin who were working when OBRA terminated or reduced their benefits quit a job and were back on welfare a year after the cuts went into effect.[12] And for all the women

Table 2
Selected Characteristics of Persons Below the Poverty Level 1982 and 1979
(Numbers in thousands)

Characteristic	Below Poverty Level: 1982	Below Poverty Level: 1979	Below Poverty Level: Percentage Difference	Poverty Rate: 1982	Poverty Rate: 1979	Poverty Rate: Percentage Point Difference
All persons	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In families	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Related children under 18 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In families with female householder, no husband present	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In all other families	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unrelated individuals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Under 65 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 years and over	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In metropolitan areas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In central cities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Outside central cities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
In nonmetropolitan areas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: U.S. Department of Commerce, Bureau of the Census, Poverty Trends and [illegible] presented to the Committee on Ways and Means, U.S. House of Representatives, October 18, 1983, Chart 4.

affected, income from earnings, AFDC, and food stamps decreased by 17 percent over this period. The OBRA changes may, however, have decreased the incentive to begin work for those women on AFDC who were not working when OBRA was implemented. A research project to address this question is just getting under way at the Institute.

Two-parent households and unrelated individuals: the working poor. Timothy Smeeding, in his testimony before the committee, stated that "the major increases in poverty experienced during the past four years have been among persons, adults but especially children, living in traditional husband-wife families." In 1979 families headed by married couples made up 34.4 percent of the poor. Today they make up 40 percent, and 60 percent of the increase in poor families last year was made up of husband-wife families.[13]

This is the working population, and their mainstay during recessions is Unemployment Insurance (UI). But since 1979 there has been a large drop in the fraction of the unemployed receiving UI.

Gary Burtless of the Brookings Institution, in his testimony, stated that in fiscal year 1976 about three-quarters of the unemployed were covered by UI, but in fiscal 1982, only 42 percent were covered. Relative to the number of newly unemployed workers, there have been between 16 and 18 percent fewer initial UI claimants in the past two years. Burtless attributes this relative drop in applications to a number of changes that have been made both at the state level and at the federal level since the 1974-75 recession.[14] Because additional benefits (such as Extended Benefits -- an extra 13 weeks of coverage) are made available only when the count of those on UI reaches a certain level, the reduced number of initial claimants started a chain reaction that cut back benefits at every stage of the recession. According to the U.S. Department of Labor, the August 1983 outlay for UI was an estimated $15 billion, or 34 percent lower than would have been the case if the system had compensated the unemployed in proportion to the levels paid in 1976.[15]

Though UI is not primarily an antipoverty program, Burtless demonstrated that it has been reasonably effective in aiding some of those who would be poor in the absence of the program, particularly husband and wife families. But the changes in UI have reduced its antipoverty effectiveness. "In 1975 about [illegible] percent of one-earner husband-wife families with pre-UI incomes below the poverty line were raised above poverty by their UI payments. In 1982 only 20 percent of these families were raised above poverty by UI payments. The relative drop in effectiveness was even larger for families suffering 26 or more weeks of unemployment."[16]

Using data from the Michigan Panel Study of Income Dynamics (PSID), Burtless found that among nonaged, poor, male-headed families, the fraction of unemployed breadwinners receiving any UI benefits at all dropped from 51 to 29 percent between 1975 and 1981, and among those receiving UI benefits, a smaller fraction below the poverty line were brought above the line by their benefits -- 49 percent in 1975 vs. 37 percent in 1981.[17]

The working poor also pay taxes. And, according to Smeeding as well as data contained in the *Background Material on Poverty*, taxation in recent years has begun to adversely affect the poor. The earned-income tax credit (EITC) was enacted by Congress in 1975 to alleviate the tax burden on low-income families who had children and who supported themselves primarily by earnings. At that time, payroll taxes were lower and a family of four did not have to start paying federal income taxes until its income was 22 percent above the poverty line. In subsequent years the distance between the poverty threshold and the tax threshold narrowed considerably: inflation drove up the poverty line, but tax adjustments to offset the effects of inflation did not keep pace. Nor did the EITC. Originally set at $400, its maximum amount was raised to $500 in 1979 and has not changed since then.

According to Smeeding, in 1982 a family of four with earnings at the poverty level would have to pay $946 in federal income and payroll taxes, despite the EITC. The same family would on average qualify for food stamps in the amount of $900. The net effect of food stamps and taxation would therefore have been to reduce a poverty-level income by an additional $46. These taxes equaled 9.6 percent of income in 1982 and are projected to rise to 9.8 in 1983, and to 10.1 in 1984.[18] Thus while the general population has had tax cuts, the working poor have had increases.[19]

The one government welfare program for which all of those with low income and assets are eligible is Food Stamps. OBRA has restricted benefits and reduced eligibility for this program in a number of ways. The first month's payments have been prorated, indexation has been slowed, and a gross income limit equal to 130 percent of the poverty line has been established for all households except those containing an elderly or disabled person. A slightly larger benefit reduction rate on earnings has been imposed. New rules have tightened restrictions on boarders, aliens, and college students, and strikers have been eliminated from the rolls altogether.[30]

The aged. The aged are the success story of the period following the War on Poverty. As can be seen from Table 2, at a time when the poverty rate was rising for all other groups, the economic status of the aged continued to improve. Over 43 percent of this group have pretransfer incomes below the poverty line, but after money transfers their poverty rate falls to 14.6 percent, slightly less than the rate for all persons. If their assets and in-kind transfers (such as Medicare and food stamps) and favorable tax laws are taken into account, their economic status relative to the nonelderly increases even more (see *Focus* 6:2). Because social security and Supplemental Security Income are indexed to consumer prices, these major sources of income are not eroded by inflation, and because most of the aged are not in the work force, they are less vulnerable to the ups and downs of the business cycle. Dependent on government transfers, they can have their incomes reduced through legislative acts. However, the fact that they are a potent political force makes it unlikely that any retrenchment will adversely affect current retirees.

Though the Reagan administration sought to reduce government spending on social welfare programs, and was particularly concerned over the short-term deficits in OASDI, the 1983 amendments to the Social Security Act made only

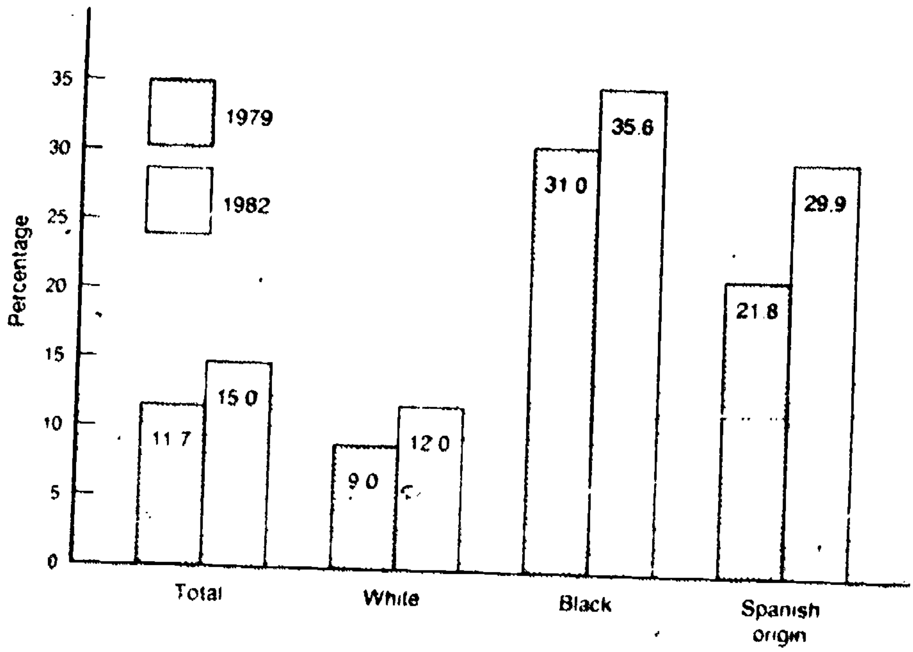

Figure 2. Percentage of Persons below the Poverty Level, by Race and Spanish Origin, 1979 and 1982

Source: Poverty Trends and Issues, prepared by the U.S. Department of Commerce, Bureau of the Census, for the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, Chart 1.

Table 3

Poverty Deficit in Current Dollars before and after Cash Transfers, Selected Years, 1967-82

Year	Pretransfer Poverty Deficit[a] (1)	Cash Transfers Received by Pretransfer Poor Households[a] (2)	Posttransfer Poverty Deficit[a] (3)	Percentage Reduction in Poverty Deficit Due to Cash Transfers (4)	Posttransfer Poverty Deficit as a Percentage of GNP (5)
1967	$ 22.6	$ 17.5	$10.0	55.5%	1.29%
1974	45.0	57.1	15.1	66.4	1.06
1979	70.5	80.0	23.9	66.0	1.02
1980	87.2	97.9	31.4	64.0	1.22
1981	106.1	109.0	40.1	62.2	1.37
1982	114.9	118.1	45.3	60.5	1.47
% Increase in Current Dollars					
1979/1967[b]	211.9	357.1	139.0		
1982/1979[b]	63.0	47.6	89.5		

Source: Sheldon Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 10.
[a]Billions of current dollars.
[b]Between 1967 and 1979, the Consumer Price Index increased by 117 percent. Between 1979 and 1982, the Consumer Price Index increased by 33 percent.

small changes in the economic status of the aged. The changes eliminated inequities in coverage, provided for a gradual rise in the retirement age, made half of social security subject to income tax in the case of high-income beneficiaries, and delayed the annual cost-of-living adjustment from July to January.

Of the 3.8 million aged poor in 1982, blacks and women were disproportionately represented. The poverty rate among elderly blacks was 38.2 percent, compared to 12.4 percent for elderly whites. Whites who lived alone had a poverty rate of 23.5, whereas blacks who lived alone had a rate of 61.6 percent. Women, who accounted for 59.1 percent of the noninstitutionalized aged population, accounted for 70.9 percent of the aged poor.[21]

Geographic distribution. During the 1970s the poor became increasingly concentrated in metropolitan areas. In 1969 only 54 percent of the poor lived in cities, whereas in 1982, 62 percent of the poor were located in these areas. The central cities contained 37 percent of the nation's poor in 1982 (12,696,000; see Table 2), whereas they had contained 33 percent of the poor in 1969. At the same time the proportion of the total population living in central cities dropped from 32 percent to 28 percent.[22]

The proportion of the poor living in the South has lessened. Between 1969 and 1982 it dropped from 46 to 41 percent.[23] Nevertheless, the South still had the highest poverty rate in 1982 -- 18.1 percent, compared to 13.0 in the Northeast, 13.3 in the North Central states, and 14.1 in the West.[24]

Race and ethnic background. Although two-thirds of the poor in 1982 were white, other races were disproportionately represented. Blacks, for example, made up 22.9 percent of the poor, though they are only 11.9 percent of the total population. People of Spanish origin accounted for 12.5 percent of the poor, though they are only 6 percent of the population.[25] Put another way, only 12 percent of all whites, but 35.6 percent of all blacks and 29.9 percent of all Hispanics were poor (see Figure 2). Race is not only related to poverty at a given time, it is also related to level of poverty and length of time in poverty.[26]

How poor are the poor?

"The proportion of poor persons with incomes at 75 percent or less of the poverty lines increased from 61 percent in 1978 to 68 percent in 1982.[27] Since 1978, in terms of census income alone, it would appear that the poor are losing ground. Just how poor were the households with incomes below the poverty line? This question can be answered in part by examining what has happened to the poverty deficit (defined in the box). Table 3 illustrates that cash transfers between 1967 and 1979 were increasingly successful in reducing the poverty deficit. They reduced the deficit by 55.5 percent in 1967 and 66.0 percent in 1979. After 1979, however, the pretransfer deficit grew faster than did cash transfers, so the posttransfer deficit grew even faster. This deficit, in current dollars, grew from $23.9 billion to $45.3 billion between 1979 and 1982 (or from $31.8 to $45.3 billion in constant 1982 dollars). The 1982 pretransfer poverty deficit of $114.9 billion means that the income of the typical poor household before transfers is about $4540 below the poverty line, the posttransfer deficit of $45.3 billion means that those households remaining poor after receiving cash transfers were about $3200 below the poverty line.[9] Table 3 also demonstrates that the antipoverty impact of cash transfers (discussed in more detail below) has been decreasing in recent years – only about 50 percent of the gap was reduced by transfers in 1982.

Also shown in the table is the continued growth of cash transfers to the poor. In 1982 the poor received $118.1 billion in cash transfers – more than enough, in theory, to wipe out the poverty deficit. However, this could be achieved only by an income-tested program which reached all of the poor and provided each pretransfer poor household only the amount of its poverty deficit. Such a program would be impossible to administer and would have great work disincentives. Most of the antipoverty impact of existing transfers is due to social insurance programs – chiefly social security – which raise the incomes of many of the pretransfer poor who receive them far above the poverty line. These social insurance transfers remove more persons from poverty than do cash public assistance transfers, because a greater number of the pretransfer poor receive them and because the average social insurance benefit is higher.

How long are they poor?

An earlier article in *Focus* on the dynamics of poverty (5:1, Summer 1981) outlined changing views in the 1960s and 1970s concerning the permanent versus the transitory nature of poverty. In the 1960s many analysts perceived the poor as a separate population, imbued with its own culture, socially immobile, isolated from the rest of society. In the 1970s others began to point to large flows of people into and out of poverty, creating a churning effect around the threshold. The availability of longitudinal data has now made it possible to track the actual course in time of individuals who become poor.

Harvard researchers Mary Jo Bane and David Ellwood, using a ten year segment of the Michigan PSID, found, as Stockman put it in his testimony, that "the same poor people are not always with us – even though the same numbers seem to be." [illegible] findings of the study, which Stockman described, [illegible] of those who become poor experience short periods of [illegible] one to two years, but that a small number [illegible] poor for a very long time and, because of their continuing presence, form the dominant part of the poverty population at any one time. These long term poor eventually consume a large portion of welfare expenditures. They constitute the group termed by some the underclass – the hard core – those most difficult to reach.

Another recent study utilized the Michigan PSID to address the issue of whether poverty persists across generations. To find out whether motivational deficits among poor parents depressed the levels of their children's economic attainment, a research team headed by Martha Hill at the University of Michigan followed the history of family members who left home and established their own households. The research results showed considerable economic upward mobility across generations of poor families: "Most of today's poor children are not tomorrow's poor adults."[10]

These analyses of the dynamics of poverty indicate that the best evidence we now have gives us both good and bad news. Many poor people remain so for only a short time, but those who do not soon escape poverty are likely to stay poor for many years. More optimistic is the finding that poverty is not necessarily transmitted from one generation to the next.

Table 4
The Antipoverty Effectiveness of Major Income Transfers, Selected Years, 1965–82

Years	Percentage of Pretransfer Poor Persons Removed from Poverty by: Cash Social Insurance Transfers[a]	Cash Public Assistance Transfers[b]	In-Kind Transfers[c]	All Transfers
1965	23.5	3.3	16.4	43.2
1976	37.6	6.2	28.1	71.9
1978	37.6	4.9	n.a.	n.a.
1980	35.2	5.4	n.a.	n.a.
1982	33.8	3.8	25.8[d]	63.3[e]

Source: Sheldon Danziger in Danziger, Peter Gottschalk, Robert J. Rubin, and Timothy M. Smeeding, "Recent Increases in Poverty: Testimony before the House Ways and Means Committee," IRP Discussion Paper no. 740-83, p. 8.

[a] Cash social insurance transfers include social security, railroad retirement, unemployment compensation, workers' compensation, government employee pensions, and veterans' pensions and compensation.

[b] Cash public assistance transfers include AFDC, SSI (OAA, APTD and AB in 1965), and general assistance.

[c] In-kind transfers include Medicare, Medicaid, Food Stamps, and, for 1976, school lunch and public housing. [illegible] for [illegible] and the underreporting of cash transfers.

[d] Based on [illegible] for adjusted income poverty 1982.

[e] [illegible]

Causes and cures

Among those presenting testimony before the subcommittees, none disputed the actual numbers of poor people under the various measures, but there was some disagreement over the long term causes and cures underlying those numbers. Argument continues over whether the state of the economy or government transfers has the greater effect on poverty in the United States. Some stressed economic growth as the primary factor in reducing poverty, but Institute researchers found the picture more complex. Sheldon Danziger described the varying antipoverty effectiveness of transfers over past years, and Institute affiliate Peter Gott-

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schalk, of Bowdoin College, summarized research intended to disentangle the effects of economic change, income transfers, and long-range changes in income inequality.

Income transfers and poverty: Trends over time

One way to gauge the effect of social programs is to estimate how many people they move out of poverty. Table 4, which Danziger presented in his testimony, arrays those figures over a seventeen-year period, separating transfers into social insurance, public assistance, and in-kind transfers including adjustment for taxation and underreporting of income.[11]

As seen in the table, cash social insurance benefits remove the greatest percentage of the pretransfer poor from poverty, and cash public assistance the smallest in each year. Social insurance had an increasing effect in reducing poverty from 1965 until 1976, then steadily diminished in importance after 1978. Public assistance followed a different trajectory: its effectiveness rose till 1976, declined till 1978, rose to its highest point in 1980, and within two years after that had dropped to a point almost as low as in 1965. In-kind transfers had a growing effect from 1965 to 1976, then dropped off.

The principal conclusion to be drawn is that transfer effectiveness rose in the period 1965 to 1976 and declined steadily from that point on. Does that rise and decline account for the concomitant decline and rise in poverty, or was it economic growth and then economic recession that caused the change in poverty rates?

Economic change, transfers, and poverty

To pursue the question of how transfer effectiveness compares with the power of market income in determining poverty rates, Gottschalk and Danziger in a joint paper compared three sets of figures: (1) economic activity, shown by year-to-year changes in real (adjusted for inflation) gross national product and by yearly unemployment rates, (2) transfer efforts, shown by changes in cash as well as in-kind transfers; and (3) the poverty rates over time.[12] Table 5 displays these figures over selected years since 1950.

Using the evidence in Table 5, Gottschalk and Danziger conclude that the data are consistent with the following simple story. The period of sharp reductions in poverty in the 1960s resulted from a combination of economic growth, declining unemployment, and large increases in transfers. The stable poverty rates of the 1970s resulted from offsetting factors: growth slowed and unemployment rose, but so did both cash and in-kind transfers. After 1979, declining economic growth, rising unemployment, and lower real transfer levels all contributed to greater poverty.

Table 5
Time Series on Macroeconomic Conditions, Income Transfers and Poverty, Selected Years 1950-82

Year	Real GNP per Household[a] (1972 dollars) (1)	Unemployment Rate (2)	Real Cash Transfers per Household[a] (1972 dollars) (3)	Real In-Kind Transfers per Household[a] (1972 dollars) (4)	Official Incidence of Poverty[b] (5)	Incidence of Poverty Adjusted for In-Kind Transfers[c] (6)
1950	$10,880	5.3%	$ [illegible]	$ 29	n.a.	n.a.
1965	15,150	4.5	816	63	17.3	12.1%
1968	16,[illegible]	3.6	911	204	12.8	9.9
1970	16,080	4.9	1,010	242	12.6	9.3
1972	16,710	5.6	1,225	[illegible]	11.9	6.2
1974	16,720	5.6	1,26[illegible]	[illegible]	11.2	[illegible]
1976	16,670	7.7	1,5[illegible]	[illegible]	11.[illegible]	6.[illegible]
1978	17,[illegible]	6.1	1,[illegible]	[illegible]	11.4	[illegible]
1979	[illegible]	5.8	1,419	[illegible]	11.[illegible]	6.1
1980	16,[illegible]	[illegible]	1,[illegible]	[illegible]	[illegible]	[illegible]
1981	17,[illegible]	7.6	1,[illegible]	[illegible]	14.[illegible]	[illegible]
1982	16,[illegible]	9.7	1,4[illegible]	[illegible]	[illegible]	[illegible]

Sources: For GNP, consumer price index, and unemployment rate, 1982 *Economic Report of the President*; for cash and in-kind transfers, "Social Welfare Expenditures under Public Programs in the U.S.," *Social Security Bulletin*, December 1969, December 1972, January 1977, January 19[illegible], November 1981; for official poverty incidence and number of households, *Current Population Reports*, Series P-60, "Consumer Income"; for adjusted poverty, T. Smeeding, "The Antipoverty Effects of In-Kind Transfers," *Policy Studies Journal* 10 (1982): 499-521.

Note: *Cash transfers* include *social insurance* (non-income-tested: old age, disability, survivors', railroad retirement, unemployment insurance, workers' compensation, government employee pensions, veterans' pensions and compensation) and *cash public assistance* (income-tested: AFDC, SSI, and general assistance). *In-kind transfers* include cash equivalent values of Medicare, Medicaid, food stamps, public housing. [illegible] also adjusted for direct taxes and underreporting of cash transfers.

[a] Transfers are divided by all households, not by recipient households.

[b] All persons. For families, the poverty incidence was 12.2% in 1982, 11.2% in 1981.

[c] This series also adjusts census incomes for simulated values of taxes and income underreporting.

n.a. = not available

To further explore the relative effects of these factors, Gottschalk in his testimony described analyses separating out three elements: changes in mean market income, which reflect the state of the economy, changes in mean cash transfer income, and a residual category that captures changes in the shape of the income distribution.[11] This third category is important because fluctuations in poverty rates result from changes in the distribution of income. For example, if the real incomes of all households rise proportionately during good times, a smaller proportion of households will fall below the fixed poverty line. If, however, economic expansion does not raise the incomes of all households equally, the shape of the income distribution changes. And, if the incomes of those households at the bottom of the distribution grow slower than the average, poverty may rise despite an increase in average incomes. Table 6 decomposes the change in poverty rates over two time periods, the earlier one marked by declining, the more recent by rising, poverty rates.

Between 1967 and 1969, poverty went down by [illegible] percentage points. Both cash transfers and market income were important – transfers somewhat more so – in achieving that result. Yet over the same years growing inequality was large enough to take away half of the effect of rising mean incomes. Between 1979 and 1982, poverty rose by 3.3 percentage points. This was partly a result of depressed mean market income, which increased poverty by 0.8 percent. Far more important was the change in the shape of the income distribution; because incomes declined more sharply among those in the lower income ranges, poverty rose 2.9 percent. In other words, if all households had experienced equal decreases in market income and equal increases in transfers, poverty from 1979 to 1982 would have risen only about 0.4 percentage points, not 3.3 points.

Table 6
Decomposition of Changes in Poverty Rates

Household Head	Actual Percentage Point Change in Poverty (1)	Percentage Point Change in Poverty Associated with Change in: Mean Market Income (2)	Mean Cash Transfer Income (3)	Shape of the Income Distribution (4)
All persons				
1967–79	2.6	3.4	[illegible]	[illegible]
1979–82	3.3	0.8	0.4	2.9
Young men (aged [illegible])				
1967–79	1.9	2.4	0.6	1.2
1979–82	[illegible]	[illegible]	0.6	1.4
Prime-aged men ([illegible])				
1967–79	[illegible]	[illegible]	0.8	2.2
1979–82	[illegible]	[illegible]	1.2	2.4
Elderly persons (over 65)				
1967–79	12.9	[illegible]	19.8	6.2
1979–82	0.6	[illegible]	1.8	1.1

Source: Computations from data [illegible] Gottschalk and Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," in Lee Bawden, ed., [illegible] *Social Welfare Policy* (Washington, D.C.: [illegible] 1984).
Note: The sum of the changes in [illegible] is equal to the change shown in column 1.

Because of the different experience among demographic groups that has been documented above, Gottschalk and Danziger separated out the relative effects for households headed by young men, older men of working age, and the elderly. Table 6 illustrates again the dramatic decline in poverty among the aged, and shows that growth in mean transfers was almost solely responsible for that decline. Among the other groups, growth in market income was more important than transfers in reducing poverty until 1979, but even in that earlier period the gains from both sources were diminished by greater income inequality. In the more recent period, market incomes again played a greater role, but in the opposite direction: despite the poverty-reducing effects of transfers, the recession drove poverty rates up, as did a continued increase in income inequality.

These figures demonstrate the power of earned or market income in raising or lowering poverty rates among those of working age who are not insulated, as are the elderly, from economic ups and downs. David Stockman underlined this point when he described "the critical importance of swings in the business cycle to non-elderly poverty" and concluded that "variations in poverty over the business cycle are ample evidence that the poor and near-poor benefit considerably from economic growth."[14] The evidence presented by Gottschalk and Danziger confirms this conclusion but points to the importance of recent increases in inequality in offsetting the gains to economic growth.

To estimate the magnitude of the poverty reduction which will accompany the economic recovery, Gottschalk and Danziger used projections based on (1) the economic recovery predicted in July 1983 by the Office of Management and Budget, and (2) proposed expenditures on the major transfer programs in the federal budget for fiscal year 1984. They estimated that even if the economy improved as forecast, the poverty rate would drop only from 15 percent in 1982 to 14.6 percent in 1983, and would remain at that level through 1984. This small drop in poverty is largely a result of the predicted slow decline in unemployment rates. (It is worth noting that unemployment rates in recent months have been falling somewhat faster than the July 1983 official predictions.) "It would take," concluded Gottschalk, "either a stronger than officially predicted recovery or an unexpected increase in income transfers to bring poverty as officially measured back to the 11-12 percent range of the late 1970s."[15]

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Directions for the future

There is thus general agreement that declines in unemployment combined with economic growth will reduce poverty for those attached to the work force—in the short run. There is less agreement about the ability of growth to counter the secular increase in inequality.

Most students of poverty do agree that a robust economy will have the least effect on those, such as single parents with small children, whose commitment to the work force is tenuous, those who are disabled, and those who are disadvantaged by lack of training, race, or ethnic background. For these people, welfare or public employment and training programs of some sort or another seem to offer the only possibility of escape from poverty.

CBO options

In response to the request by the subcommittees that the Congressional Budget Office identify and analyze options for increased welfare expenditures that would reduce the poverty rate and/or the poverty gap, Rudolph Penner, CBO Director, began by pointing out that any increase in outlays related to welfare programs must, of course, be financed by cutting nonwelfare programs, or by raising taxes, or by increasing an already large deficit. He also noted that changes in welfare programs have a number of different goals, some of them in conflict with one another. The goals he listed were targeting benefits toward those most in need; treating persons with similar incomes alike; encouraging families to remain together; maintaining incentives so that program recipients who can work do so; simplifying the system and reducing administrative costs; and keeping costs as low as possible.

After making these qualifying remarks, Penner set forth the following options for changes in welfare programs, the particular advantages and drawbacks of which have been the subject of much debate.*

1. Establish a national minimum AFDC benefit level. AFDC now varies from state to state. The maximum guarantee in Mississippi for a family of three is $96 a month. The same family in Vermont would get $530. A national minimum would target much of the increase in benefits on single-parent families in states where payments are quite low, resulting in more equal treatment across states for these families. If costs were shared by states and the federal government, however, poor states might have difficulty in funding the program. To bring AFDC plus food stamp benefits up to three-fourths of the poverty line, federal expenditures would have to rise by $1.2–1.6 billion in 1984 and state costs by $1.0–1.5 billion.

2. Require state participation in the Unemployed Parent program under AFDC. This program would make AFDC available to intact families in the 31 states that do not now have an AFDC-UP program. It would provide equity between one-parent and two-parent families and eliminate the incentive for men to leave home. It would cost between $5.5 and $.7 billion, three-fifths of which would be paid by the federal government.

3. Expand Food Stamp benefits. This program now provides benefits to all the poor, including the working poor and childless individuals who are not eligible to participate in other programs. Because it is a federal program already in place, raising the size of the benefits would be administratively simple. An increased federal expenditure of $.9–1 billion would raise total benefits by 8 percent. If Food Stamps were transformed into a cash program, counterfeiting and black market activities would be eliminated, but there would be no guarantee that recipients would use the money for food.

4. Expand Medicaid eligibility to all poor families with children. If eligibility for Medicaid were expanded to include all poor families with children, it would cost the federal government about $6 billion and the states about $5 billion in 1985, assuming the present cost-sharing arrangements stay the same. Such an expansion would provide access to medical care for all poor children and reduce work disincentives for AFDC families by allowing them to retain Medicaid benefits when no longer eligible for AFDC benefits.

5. Expand the dependent care tax credit for low-income families. This program provides a nonrefundable tax credit of 30 percent (up to $720) of dependent care expenses for families earning less than $10,000. Increasing the credit and making it refundable would encourage work by reducing some of the tax burden on poor working families who have dependent care expenses. Even an increased credit would provide limited aid to the very poor, who would be unable to pay for care for their dependents in the first place. A refundable credit to cover up to 60 percent of expenses is estimated to cost between $1.5 and $2 billion in reduced revenues in 1984.

6. Change the earned-income tax credit. As mentioned earlier, the EITC has not kept up with inflation. Either the amount of the credit could be raised or the credit could be expanded to cover childless couples and unrelated individuals. The expansion would cause a revenue loss of about $600 million. Penner suggests that a tax rate lower than 12.5 percent could be used during the phase-out stage in order to lessen work disincentives.

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7. Expand child support enforcement. Because the poverty of single-parent families is directly related to lack of child support from the noncustodial parents, mandatory withholding of child support payments from wages would reduce poverty. Withholding would save the federal government between $25 million and $50 million a year in AFDC benefits but would not increase the well being of women on AFDC because the payments would be used to offset AFDC benefits. Increased incentive payments to states would encourage them to collect child support payments and to establish clearinghouses through which child support payments would pass.

8. Moderate the asset test required under SSI. Although the income limits for SSI and AFDC are indexed to the growth of the CPI, the SSI asset test of $1500 for an individual and $2250 for a couple has not changed. Raising the asset limit would raise participation rates for SSI among the elderly and disabled. Raising the asset limit of SSI by 50 percent would probably cost less than $500 million, but the resulting impact on the degree of SSI participation cannot be predicted.

It should be pointed out that these proposals by no means exhaust the possibilities for change. Many different prescriptions have been recommended by students of poverty policy. Some advocate incremental changes in programs now in place. Others propose more sweeping reforms,[12] such as a Credit Income Tax.

Conclusion

Robert Rubin summed up the Reagan administration's goals as follows:

> Our policy for reducing poverty is two-fold. First, we believe that a sound and growing economy is the essential element to reducing poverty and improving the economic well being of all Americans. A strong economy will produce jobs that provide income to those capable of working. Employment not only provides immediate income but ensures the long run potential for improving a family's standard of living. Second, for those who are unable to provide for themselves, the federal and state governments must maintain public assistance programs that assure that every American can maintain a decent standard of living.[13]

Doubts were expressed over whether the administration's programs could carry out these goals and bring poverty rates back down to the levels of the late 1970s. And questions were raised about the fairness of the administration's budget cuts.

Jack Meyer of the American Enterprise Institute pointed out that while the 1982 and 1983 budgets made significant cuts in programs for the poor, such as Food Stamps, AFDC, and Medicaid, there were much smaller cuts in social security and Medicare, though these programs account for four-fifths of federal social spending.[14] He further pointed to the trend, implicit in the budget cuts, which reduces aid to the working poor while maintaining it for the dependent poor: the elimination of the $30-and-a-third provision for employed AFDC beneficiaries after four months, the cutback in food stamps, and the loss of health insurance by the unemployed. He argued that "The administration contends that it would be a waste of society's scarce public dollars to give 'permanent' help to the working low-income households. Yet, it has made little effort to withdraw the wide array of special tax breaks and other equally permanent subsidies flowing to middle and upper-income households."[15] As an example, Meyer pointed to the open-ended tax deduction for employer-provided health insurance.

Poverty has proved more difficult to eliminate than was envisioned when the War on Poverty was declared, twenty years ago. There is more of it in bad economic times than in good, more when less is done to alleviate it, more for some types of people than for others. No cheap and easy solutions have been proposed. Yet the concern of members of Congress and the growing body of research and experimental results are encouraging—there is a range of alternative policies which, though expensive, offer the promise for further reducing poverty. ■

David Stockman, statement before the U.S. House of Representatives Ways and Means Committee, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., November 3, 1983, p. 4.

Ibid., p. 6.

Sheldon Danziger, "Alternative Measures of the Recent Rise in Poverty," presented before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983 (also available in IRP Discussion Paper no. 740-83).

Background Material on Poverty, prepared for use of U.S. House of Representatives Committee on Ways and Means by its staff (Washington, D.C.: U.S. GPO, October 17, 1983), p. 10.

Daniel Patrick Moynihan, "Welfare Reform's 1971–72 Defeat: A Historic Loss," *Journal of the Institute for Socioeconomic Studies*, 6 (Spring 1981) [illegible]

Rudolph G. Penner, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. [illegible]

[illegible] prepared by the Bureau of the Census for the U.S. House [illegible] Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. [illegible]

[illegible] and Elizabeth [illegible] Child Support and the [illegible] *Public Interest* [illegible]

Steven Cole, Sandra Danziger, Sheldon Danziger, and Irving Piliavin, "Poverty and Welfare Recipiency after OBRA: Some Preliminary Evidence from Wisconsin," paper [illegible] at the Association for Public Policy Analysis and Management Research Conference, Philadelphia, October 20–22, 1983, p. [illegible]

Robert E. Rubin, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., November 3, 1983, p. 11 (also available in IRP Discussion Paper [illegible]).

Stockman, pp. 22–23.

Cole et al.

[illegible]Timothy Smeeding, "Recent Increases in Poverty in the U.S.: What the Official Estimates Fail to Show," testimony before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 14-15 (also available in IRP Discussion Paper no. 740-83).

[illegible]Gary Burtless, testimony before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 1 and 6. The significant changes he lists are the following: The imposition of a high implicit tax on pensions and old age insurance, which cut back the amount of UI received by retirees; the imposition of federal taxation on UI benefits for higher income families; the imposition of interest charges on federal loans to deficit state UI programs; the tightening of eligibility requirements on workers who voluntarily leave a job or who are discharged for cause; tougher job search requirements to UI claimants; and restrictions on benefits to school employees who do not work during school holidays.

[illegible]*Background Material on Poverty*, p. 101

[illegible]Burtless, p. 19.

[illegible]Ibid., p. 23.

[illegible]Smeeding, pp. 10-11 and Table 1; *Background Material on Poverty*, p. 131, Table 2.

[illegible]For an analysis of tax changes across the entire distribution, see Frank Levy and Richard C. Michel, "The Way We'll Be in 1984: Recent Changes in the Level and Distribution of Disposable Income," Urban Institute Discussion Paper, 2100 M Street, N.W., Washington, D.C., 20037, November 1983. Levy and Michel found that over 1979-84, "among the top one-fifth of families, taxes as a proportion of income will have declined slightly from 31.6 percent to 31.1 percent. The experience of the bottom quintile [is that] taxes as a proportion of income will have increased from 9.7 percent to 11.9 percent" (p. 42).

[illegible]Maurice MacDonald, "Evaluation of Impacts of the Omnibus Budget Reconciliation Act of 1981 on Wisconsin Food Stamp Costs and Caseload," IRP Special Report, forthcoming.

[illegible]*Background Material on Poverty*, p. 19

[illegible]"Poverty Trends and Issues," p. 10

[illegible]Ibid.

[illegible]"Poverty Trends and Issues," Table 7.

[illegible]*Background Material on Poverty*, p. 12.

[illegible]See Mary Jo Bane and David T. Ellwood, "Slipping into and out of Poverty: The Dynamics of Spells," mimeo., Harvard University, August 1983, p. 43.

[illegible]Penner, p. 4.

[illegible]Danziger, pp. 9-11

[illegible]Sinclair, p. 2.

[illegible]Martha Hill et al., "Final Report of the Project: 'Motivation and Economic Mobility of the Poor': Part I, Intergenerational and Short-Run Dynamic Analyses," Survey Research Center, University of Michigan, Ann Arbor, August 1983, mimeo., p. 10

[illegible]Danziger, p. 8

[illegible]Peter Gottschalk and Sheldon Danziger, "Changes in Poverty, 1967-1982: Methodological Issues and Evidence," IRP Discussion Paper no. 737-83

[illegible]Peter Gottschalk, "Will a Resumption of Economic Growth Reverse the Recent Increase in Poverty?" statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, pp. 2-7 (also available as IRP Discussion Paper no. 740-83)

[illegible]Sinclair, p. 17

[illegible]Gottschalk, p. 8

[illegible]The discussion of the CBO proposals is taken from Penner, pp. 11-25

[illegible]See, for example, Irwin Garfinkel and Robert Haveman, "Income Transfer Policy in the United States," IRP Reprint no. 473, 1983.

[illegible]Rubin, p. 1

[illegible]Jack A. Meyer, statement before the U.S. House of Representatives Committee on Ways and Means, Subcommittees on Oversight and on Public Assistance and Unemployment Compensation, Washington, D.C., October 18, 1983, p. 1

[illegible]Ibid., p. 5

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CASH AND NON-CASH BENEFITS FOR PERSONS WITH LIMITED INCOME
(By Vee Burke)

More than 70 benefit programs 1/ provide cash and non-cash aid that is directed primarily to persons with limited income. These benefit programs cost $127.3 billion in fiscal year (FY) 1983, up 7.3 percent from FY 1982, and equal to 3.9 percent of the gross national product. Federal funds provided 75 percent of the total. After adjustment for price inflation, 1983 welfare spending was up 3 percent from 1982, but down 3 percent from the peak level of 1981. Measured in constant value dollars, 1983 outlays were the second smallest since 1980.

Collectively, these benefit programs constitute the public "welfare" system, if welfare is defined as income-tested or need-based benefits. Most of the programs base eligibility on individual, household, or family income, but some use group or area income tests; and a few offer help on the basis of presumed need.

This report consists of a catalogue of 74 need-based programs. For each it provides the funding formula, eligibility requirements, and benefit levels. At the back of the report a table gives expenditure and recipient data for FY 1981-1983 by program.

Of FY 1983 welfare dollars, 61.5 percent were spent on medical aid and cash relief (34 and 27 percent, respectively). Food benefits accounted for 14 percent of the total, and 15 percent was in the form of housing benefits, jobs-training, and energy aid. The remaining 9 percent went for education aid and other services. (See table 1 for FY 1981-1983 summary, page 2.)

1/ The list of 74 programs in the table of contents includes one (Public Service Employment) that ended on September 30, 1981, and another (Emergency Food Distribution and Shelter program) that was scheduled to end in 1984. The number of programs is somewhat arbitrary. For example, General Assistance, listed under both cash and medical aid, could be regarded instead as a single program.

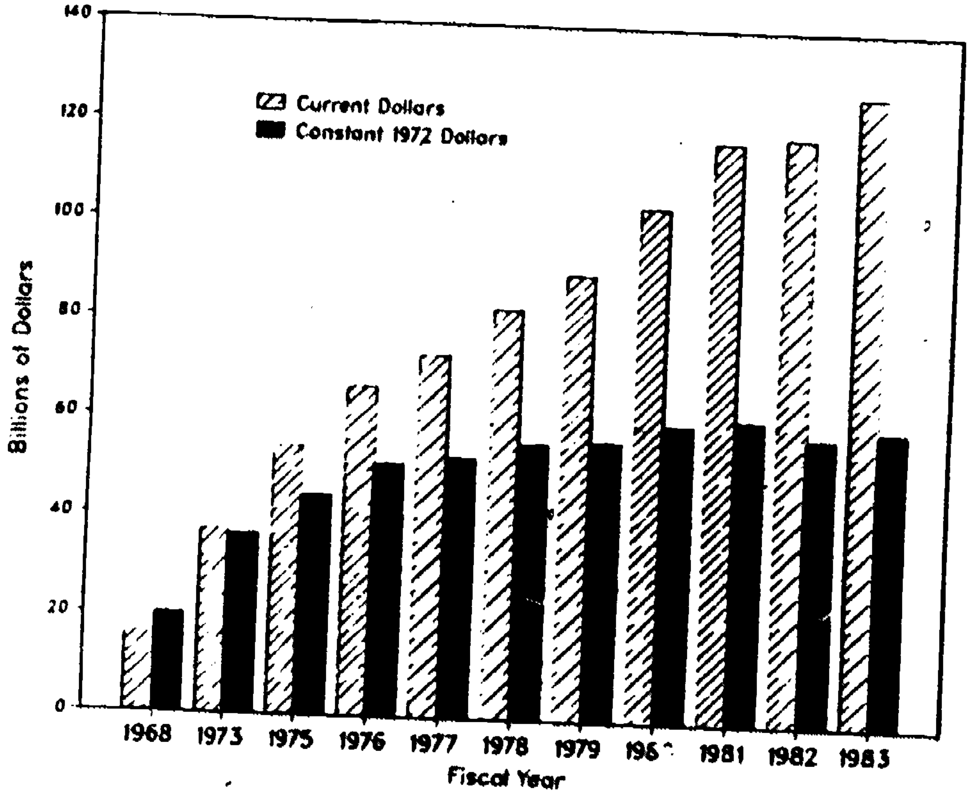
Reproduced from: U.S. Library of Congress. Congressional Research Service. Cash and non-cash benefits for persons with limited income: eligibility rules, recipient and expenditure data, FYs 1981-83. [by Vee Burke] Report no. 84-99, June 1984. p. 1-14.

TABLE 1. Expenditures of Major Need-Tested Benefit Programs, FY 1981-83
(millions of current dollars)

Category	Federal expenditures (millions of current dollars)			State-local expenditures (millions of current dollars)			Total expenditures (millions of current dollars)		
	FY81	FY82	FY83	FY81	FY82	FY83	FY81	FY82	FY83
1. Medical care	$22,091.7	$23,135.9	$25,085.3	$16,673.4	$17,790.4	$18,730.6	$ 38,765.1	$ 40,926.3	$ 43,815.9
2. Cash aid	21,566.2	22,076.8	22,831.4	10,996.8	11,271.8	11,697.9	32,563.0	33,348.6	34,529.3
3. Food benefits	15,600.0	15,534.7	17,770.5	580.0	647.0	712.3	16,180.0	16,181.7	18,482.8
4. Housing benefits	10,455.5	11,380.5	12,722.7	0	0	0	10,455.5	11,380.5	12,722.7
5. Education	4,710.2	7,890.8	8,450.7	215.0	238.1	238.7	4,925.2	8,128.3	8,689.4
6. Jobs & training	7,516.3	3,989.4	4,087.9	83.9	74.8	81.5	7,600.2	4,064.2	4,169.4
7. Services	3,324.1	2,724.8	2,778.4	1,461.5	12.5	9.2	4,785.6	2,737.3	2,787.6
8. Energy aid	2,008.9	1,763.5	2,048.9	0	0	0	2,008.9	1,763.5	2,048.9
TOTAL	$87,272.9	$88,496.4	$95,775.8	$30,010.6	$30,034.6	$31,470.2	$117,283.5	$118,531.0	$127,246.0

Chart I

Total Expenditures for Income–Tested Benefits



A. Nature of Programs

Most of these programs provide income "transfers." That is, they transfer income, in the form of cash, goods, or services, to persons who make no payment and render no service in return. However, in the case of the job and training programs and some educational benefits, recipients must work or study for wages, training allowances, stipends, grants, or loans.

This report excludes income maintenance programs that are not income tested, including social insurance, many veterans' benefits, and all but one tax transfer program. Thus, it excludes social security cash benefits, unemployment insurance, and Medicare. The first of these programs in FY 1983 paid out 34 percent more than all income-tested programs, or a total of $170.7 billion, financed from payroll tax collections. The report also excludes payments, even though financed with general revenues, that may be regarded as "deferred compensation," such as veterans' educational benefits ($1.7 billion in 1983), veterans' housing benefits, and medical care for veterans with a service-connected disability.

The report includes one tax-transfer program, the rebatable earned income credit for low-income workers with children. This program reduces the taxes of working families with gross income below $10,000 and makes direct payments to those whose income is below the income tax threshold. Other tax transfers are excluded because they are not income tested. Tax transfers (also known as tax expenditures) increase families' disposable income by reducing their tax liability. Examples are the deductibility of mortgage interest and property taxes on owner-occupied property ($20.8 billion and $8 billion respectively, in 1983) and the parental personal exemption for students aged 19 and over ($1.0 billion in 1983).

B. Billion-Dollar Programs in FY 1983

In FY 1983 a total of 20 income-tested programs spent more than $1 billion each in Federal, State, and local funds. The list was led by Medicaid, which cost more than the sum of the next two programs, Aid to Families with Dependent Children (AFDC) and food stamps. Here are the 20 programs and their FY 1983 expenditures.

		Billions	Percent Increase From FY 1981
1.	Medicaid	$34.96	15.1
2.	AFDC	15.39	5.4
3.	Food stamps	13.27	12.8
4.	SSI	10.10	9.1
5.	Section 8 lower income housing assistance	4.99	60
6.	Medical care for veterans with a non-service-connected disability	4.41	24.6
7.	Veterans' pensions	3.89	3.7
8.	Low-rent public housing	3.21	34
9.	Guaranteed student loans	3.10	a/
10.	Pell grants (formerly Basic Educational Opportunity Grants)	2.86	23.7
11.	General assistance (medical care component)	2.44	(-24)
12.	School lunch (free and reduced-price segments)	2.41	4.3
13.	Title XX social services	2.40 b/	c/
14.	Section 502 rural housing loans	2.33	(-18)
15.	General assistance (cash and non-medical care vendor payments)	2.11	21.9
16.	Low-income energy assistance	1.90	6.4
17.	Earned income tax credit	1.80	(-9)
18.	Comprehensive employment and training services (CETA Titles II-B and II-C)	1.76	(-21)
19.	Special supplemental food program for women, infants and children (WIC)	1.16	28.9
20.	Headstart.	1.13	11.6

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a/ Not applicable.

b/ Federal dollars only. Data are unavailable on State total outlays after 1981.

c/ State data are unavailable to calculate percentage change in total spending.

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C. Trends in Spending

Total expenditures on cash and non-cash welfare programs were eight times greater in 1983 than in 1968. Even after allowance for price inflation, spending more than tripled during the 13 years. Measured in constant 1972 dollars, it climbed from $19.9 billion in FY 1968 to a peak of $61.3 billion in FY 1981, a period when the U.S. population grew by 15 percent. Per capita welfare spending grew in real terms (constant 1972 dollars) from $100 in FY 1968 to $266 in FY 1981, an increase of 166 percent. However, in FY 1982, welfare spending failed to keep pace with inflation for the first time since 1973. 2/ In real terms welfare outlays fell 5.5 percent ($3.4 billion in 1972 dollars). Only slightly more than half of this was restored by increased spending in 1983. Chart 1 and table 2 show the course of welfare spending in both current and constant dollars.

During 1968-1978, Congress liberalized some old welfare programs and established new ones. Some of the major expansions follow: effective in 1969 Congress gave a work incentive bonus to all mothers who received AFDC checks; the bonus, virtually repealed in late 1981, was the right to a welfare supplement even after their earnings rose above the State standard of need. In 1969, minimum rents for public housing were abolished (reinstituted, at a low level, in 1974). By 1970 amendment, the food stamp program was converted into a Federal income guarantee in participating counties. By 1972 amendment, basic educational opportunity grants were adopted for all needy college students (extended to "middle-income" students by 1978 law). In 1972, effective in 1974, a Federal cash income guarantee (SSI) was enacted for the aged, blind, and disabled. Effective in 1974, food stamps were extended to all counties, providing a national income guarantee in the form of food stamps. In 1975, a rebatable tax credit was adopted for low-income workers with children.

In 1981, however, Congress moved to restrict eligibility for some programs and to lower some benefits. For example, it imposed gross income eligibility limits for AFDC and food stamps, reduced AFDC and food stamp benefits for families

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2/ Federal outlays for six major income and medical assistance programs (and program groups) for low income persons, as mesured in constant dollars, declined 3 percent from FY 1972 to FY 1973. In all other years, from FY 1964 to FY 1981, such outlays rose. The programs: medicaid, subsidized housing payments, food stamp program, cash assistance, and veterans' pensions. U.S. Library of Congress. Congressional Research Service. 1985 budget perspectives: Federal spending for the human resource programs. [by] Richard Rimkunas and Gene Falk [Washington] 1984. CRS Report 84-35 EPW. p. 159.

with earnings, raised public housing rents, and reduced subsidies for school lunches. Effective in FY 1983, it temporarily reduced the food stamp guarantee.

As table 2 shows, the annual rate of growth in total expenditures for need-based benefits declined in the latter part of this period. Measured in constant dollars, the increase in successive 5-year periods was: 1968-73, 81 percent; 1973-1978, 54 percent; 1978-1983, 7 percent. Further, as mentioned before, real spending declined in 1982.

TABLE 2. Total Expenditures for Income-Tested Benefits

Fiscal year	Current dollars a/ (billions)	Constant 1972 dollars b/ (billions)
1968	$ 16.062	$19.910
1973	36.829	35.995
1975	54.025	44.221
1976	66.463	50.867
1977	73.092	52.392
1978	82.675	55.472
1979	89.894	56.310
1980	103.819	59.911
1981	117.283	61.267
1982	118.531	57.908
1983	127.246	59.611

a/ FY 1968 and FY 1973 data are from "Income Security for Americans: Recommendations of the Public Welfare Study." Report of the Subcommittee on Fiscal Policy of the Joint Economic Committee. December 5, 1974. Table 4, page 28. Data for other years:

-- FY 1975 data, CRS multilith 77-152 ED, p. 1. From the total, the net sum of $441 million has been subtracted--$297 million was added to correct an error in housing outlays, and $738 million was deducted because of a revised estimate of medical benefits for veterans without a service-connected disability.

-- FY 1976 data, CRS report 79-216 EPW, p. 2. From the total, the net sum of $950 million has been subtracted--$836 million and $142 million in lower estimates of medical spending for veterans without a service-connected disability and for General Assistance (GA) medical aid, respectively, offset in part by the addition of $28 million, the sum spent on weatherization.

-- FY 1977 data, CRS report 81-44 EPW, p. 2. From the total, the sum of $1.3 billion has been subtracted--$1,050 and $250 million in lower estimates of medical spending for veterans without a service-connected disability and for GA medical aid, respectively.

-- FY 1978 data, CRS report 82-113 EPW, p. 2.

-- FY 1979-80 data, CRS report 83-110 EPW, p. 2. From the 1979 and 1980 totals, $57 million and $76.1 million, respectively, have been deducted to correct an error in reported outlays for nutrition for the elderly.

-- FY 1981-83 data, p. 2 of this report.

b/ Current dollars have been translated into 1972 constant value dollars by use of the implicit price deflators for the gross national product: fiscal years 1968, 0.80675; 1973, 1.0232; 1975, 1.2217; 1975, 1.3066; 1977, 1.3951; 1978, 1.4904; 1979, 1.5964, 1980, 1.7329, 1981, 1.9143; 1982, 2.0469; and 1983, 2.1346.

The 1982 welfare cutbacks are reflected in table 3, which presents 1981-83 spending totals in constant dollars, by form of benefit. As this table shows, spending declined in real terms in 1982 for medical aid, cash aid, food benefits, jobs and training, services, and energy aid. Growth resumed in 1983 for medical aid, food benefits, and energy aid, but continued to decline for cash aid, jobs and training, and servic s.

In constant dollars, spending increased during both years for education aid and housing benefits.

TABLE 3. Recent Trends by Form of Benefit, FY 1981-1983 a/

	FY 1981 outlays	FY 1982 outlays	FY 1983 outlays	FY 1983 as percentage of 1981
	(billions of constant 1972 dollars)			
Medical Aid	$20.250	$19.994	$20.527	101%
Cash	17.010	16.292	16.176	95
Food Benefits	8.452	7.905	8.659	102
Housing	5.462	5.560	5.960	109
Education	2.573	3.971	4.071	158 b/
Jobs-Training	3.970	1.986	1.953	49
Services	2.500	1.337	1.306	52
Energy Aid	1.049	.862	.960	92
	$61.266	$57.907	$59.612	97%

a/ Data sources are the same as for table 2.

b/ The rise in education's share of need-tested benefits from 1981 to 1983 is due in part to the FY 1982 restoration of an income test for the Guaranteed Student Loan Program (GSLP). As a result, the program was returned to this report's inventory after an absence in 1979-81, when it had no income test.

1. Share of Gross National Product

As a percentage of gross national product (GNP), welfare outlays more than doubled from 1968 to 1976, then were relatively steady. In 1 '' the share rose to a peak of 4.07 percent. The

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share of GNP used for income-tested benefit programs was as follows:

FY 1968	1.93%
1973	2.94
1975	3.65
1976	4.05
1977	3.92
1978	3.95
1979	3.81
1980	4.03
1981	4.07
1982	3.88
1983	3.94

2. Share of Federal Budget

The share of the Federal budget used for benefit programs for the needy more than doubled from 1968 to 1976 and peaked in 1978-1979 at 14.1 percent. However, it began dropping in 1980 and in 1983 fell to 12 percent, lowest since 1973. Table 4 summarizes this.

TABLE 4. Share of Federal Budget Used for Need-Tested Benefits

	Federal spending for need-tested benefits a/ (billions of current dollars)	Total Federal outlays	Share of Federal budget for need-tested benefits (percent)
1968	$11.352	$178.1	6.4%
1973	26.775	245.6	10.9
1975	39.340	324.2	12.1
1976	49.692	364.5	13.6
1977	54.731	400.5	13.7
1978	63.047	448.4	14.1
1979	69.188	491.0	14.1
1980	76.469	576.7	13.8
1981	87.273	657.2	13.3
1982	88.496	728.4	12.1
1983	95.776	796.0	12.0

a/ Data sources are the same as for table 2, p. 6.

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3. Share of Welfare Outlays Paid by Federal Funds

The Federal Government's share of outlays for need-tested programs climbed 9 percent from 1968 to 1979 and then declined somewhat, as follows:

FY 1968	70.7%
1973	72.7
1975	72.8
1976	74.8
1977	74.8
1978	76.3
1979	77.0
1980	76.5
1981	74.4
1982	74.7
1983	75.3

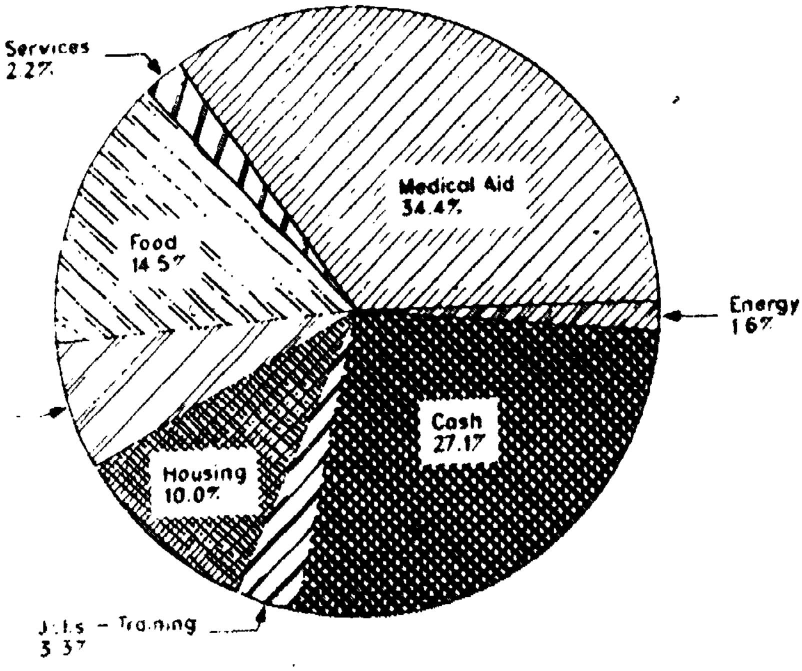
D. Composition of Benefits

The largest increases during 1968-83 in need-based benefit expenditures were in forms other than cash. The result is a dramatic change in the composition of the benefit dollar. At the start of the period 46.9 cents per benefit dollar were given as cash, but by 1983 the cash share had fallen to 27.1 cents, a drop of 20 cents per dollar (42 percent). The share of aid provided as food and housing more than doubled during the period, rising from 10.1 cents per benefit dollar to 24.5 cents. The share given as medical aid rose 3.5 cents (15 percent), but the share provided as jobs and training and other services declined 2.3 cents (29 percent).

This is summarized in Charts 2 and 3. Table 5 shows, further, that in the 4 years, 1979-83, there was a significant shift toward aid in the form of medical benefits, food, education, and energy assistance. In this period the share of aid given as jobs-training plunged 7.1 cents per benefit dollar (78 percent).

Chart 3

Composition of Needs–Based Benefit Dollar Fiscal Year 1983



Percentages do not sum to 100% due to rounding

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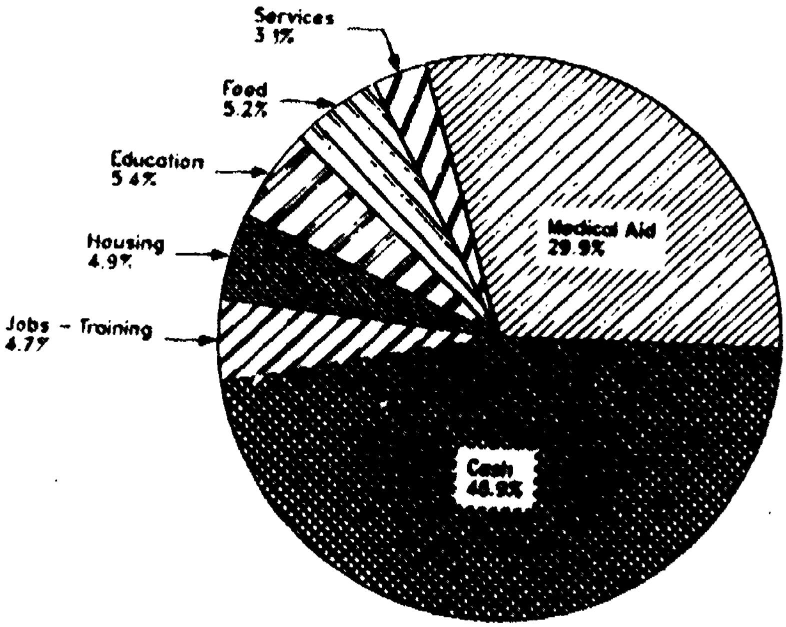
Chart 2

Composition of Need-Based Benefit Dollar Fiscal Year 1968



Percentages do not sum to 100% due to rounding.

TABLE 5. Composition of Need-Tested Benefits a/

Form of aid	FY 1968	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
	(percentage share of total aid)					
Medical Aid	29.9%	29.9%	31.0%	33.1%	34.5	34.4%
Cash	46.9	28.6	28.3	27.8	28.1	27.1
Food Benefits	5.2	12.0	13.0	14.0	13.7	14.5
Housing	4.9	8.9	8.9	8.9	9.6	10.0
Education Aid	5.4	5.5	4.9	4.2	6.9	6.8
Jobs-Training	4.7	10.4	8.4	6.5	3.4	3.3
Services	3.1	4.4	3.9	4.1	2.3	2.2
Energy Aid	0	0.3	1.7	1.7	1.5	1.6
	100.0% b/		100.0%	100.0% b/	100.0%	100.0% b/

a/ Data sources are the same as for table 2.

b/ Total does not add because of rounding.

YEARS OF POVERTY, YEARS OF PLENTY

Greg J. Duncan

The Dynamics of Poverty*

You have the poor among you always.
—Matthew 26:11, *New English Bible*

We speak easily of "the poor" as if they were an ever-present and unchanging group. Indeed, the way we conceptualize the "poverty problem" seems to presume the permanent existence of a well-defined group of "poor people" within American society.

A number of different views have been advanced about the causes of poverty and the appropriate solutions. One view holds that poverty is a result of people having inadequate job skills and few opportunities to use the skills they do possess, and that the solution lies in increasing job skills through training programs, or in increasing job opportunities through a vigorous, expanding economy. Another holds that poverty results from certain attitudes, or an entire set of values and beliefs held by poor people—that there is a "culture of poverty." There is little consensus on what might cause such attitudes; they have even been attributed to the very government programs that have been designed to alleviate poverty in the first place. Among the proponents of both views are those who think that the causes of "the poverty problem" are so numerous and poorly understood that the most important issue at the policy level is to address the effects of poverty, with particular concern for children living

* Chapter 2 of: Duncan, Greg J. [with Richard D. Coe, Mary E. Corcoran, Martha S. Hill, Saul D. Hoffman, and James N. Morgan]. Years of poverty, years of plenty. Ann Arbor, Institute for Social Research [University of Michigan], 1984.

in poverty. In this approach the most efficient solution is to augment the incomes of the poor with a simple income transfer program. But whatever the view, the stereotype that "the poor" this year will also be "the poor" next year and beyond is seldom questioned. Poverty is seen by most people as a persistent condition of life for its victims.

In order to explore the dynamics of poverty, we must first consider how poverty is defined. Here again, as with opinions about its causes and cures, there are conflicting points of view. One set of critics argues that the official definition of poverty understates its true extent because it is too parsimonious or because it should be geared to changes in the general living standards of society. Another set of critics argues that the official definition overstates the extent of poverty since the benefits of in-kind programs such as food stamps are omitted from the measure of resources.

Both views call for adjustments to estimates of annual income or needs. However, for the purpose of understanding the extent and nature of poverty, neither adjustment is as telling as changing the time period over which income and needs are measured. Examinations of poverty based on data covering one-year periods do not capture the actual volatility of family economic fortunes. This volatility demands that we distinguish between the temporarily and the persistently poor. Because so many policies are designed with a definition of poverty based on annual income and needs, it is crucial to know the extent to which annual figures misclassify the short- and the longer-term poor.

Data from the Panel Study indicate that nearly one-quarter of the U.S. population experienced at least occasional periods of poverty during the course of the decade between 1969 and 1978. However, the number with *persistently* low resources was much lower than one-quarter, and substantially lower than the poverty counts based on single-year Census Bureau information. Individuals with persistently low incomes are not, as some would have it, predominately an "underclass" of young adults living in large urban areas. Rather, persistent poverty falls disproportionately on blacks, on the elderly, and on those living in rural areas and in the South. The persistently poor are more sharply defined by these demographic characteristics than are those found to be poor in a given year. This fact has important implications for programs that seek to aim anti-poverty funds most effectively at geographic areas with only single-year information to define their target. The picture of need in U.S. society, then, is largely one of many people in temporary need, of whom some have the resources to see themselves through difficult times, while others may need temporary assistance. A smaller but by no means insignificant number lives in households in which poverty is the rule rather than the exception.

A related and crucially important question is whether information on the economic well-being of families over many years allows us a better understanding of the causes and nature of longer-term poverty. One-third of those persistently poor are elderly, with little opportunity for improving their own economic positions. But among those who are poor in a given year, we find that many of the nonelderly do improve their economic status and that family composition changes have the most dramatic effect on the poverty status of the individuals living in families headed by women. Indeed, spells of poverty often begin with a divorce but end with remarriage. Finally, we find little evidence that "better attitudes" enable many people to climb out of poverty.

Measures of Poverty[1]

Following President Johnson's declaration of a "war on poverty" in the 1960s, an official poverty measure was needed to help channel aid to the neediest individuals and to help monitor the efficiency of the aid programs. In 1968, the federal government adopted as its operational definition of poverty a set of annual dollar need levels developed by the Social Security Administration, under the direction of Mollie Orshansky. These guidelines, in spite of much discussion and criticism, have remained firmly entrenched as the main indicators of the country's success in fighting poverty.

The function of a poverty measure is to identify individuals who do not command sufficient economic resources to attain a satisfactory standard of living.[2] The official definition of poverty rests on a comparison of a family's cash income with an estimate of its needs. Family needs, in turn, are based on the number of family members, their ages, and their sex. The heart of the needs standard is an estimate of weekly food costs for individuals of each age and sex, produced by the United States Department of Agriculture.[3] The resulting poverty line in 1978 was roughly $3,300 for an individual living alone, $4,200 for a married couple, and $6,600 for a family of four. If a given family's money income fell short of this poverty line, then the family was deemed "poor"; if it equaled or exceeded this line, it was "nonpoor."

Although few would dispute the concept that poverty involves insufficient resources to meet basic needs, many critics have argued that family cash income is a faulty measure of resources, while others have

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argued that the official poverty needs standard is a faulty measure of minimal needs in our society. Few of these critics have actively questioned the notion that a single year is a reasonable period of time over which to measure resources and needs. However, these two major lines of argument, reviewed below, raise important questions about the way these measures affect the count and characteristics of the poor.

Money Income as a Faulty Measure of Resources

Money income is an incomplete measure of a family's potential ability to fulfill basic needs. It omits all of the goods and services such as housework and child care that a household provides rather than purchases for itself as well as the goods and services that a household may receive from others in exchange for its services (without the intermediary use of money). Furthermore, it fails to distinguish the "time poor"—e.g., those whose labor market and housework hours leave virtually no leisure time—from others.[4]

By far the most publicized criticism of money income as a measure of family resources is that it neglects any in-kind benefits—i.e., the benefits families receive from the government in the form of goods or services rather than cash. The largest of these programs are Food Stamps, Medicare, Medicaid, various housing subsidy programs, and aid to education. Some writers have argued that if the benefits of these programs were counted as additional cash income of recipients, then virtually all families would be lifted out of poverty.[5]

Some of these arguments are overstated since programs like Medicare and Medicaid pay for *extraordinary* medical needs, far above and beyond the typical medical expenses assumed to be included in the official poverty needs standard. A $5,000 Medicaid payment to cover the costs of surgery, for example, merely increases the family's resources by the same amount as the family's needs were increased by the costs of surgery: the net effect on a family's ability to meet its basic needs is virtually unchanged.[6]

However, the argument does hold for one of the largest in-kind benefit programs—the food stamp program. The effects of food stamp "income" on poverty are explored in Chapter 3.

The Official Poverty Line as a Faulty Measure of Needs

Accepting the argument that food needs are a proper basis for a poverty level needs standard, it is easy to argue that the official standard is unrealistically low. Although generous enough for "nutritional adequacy" as determined by the National Research Council, the food needs standard was designated as appropriate only for "temporary or emergency use." It assumes that absolutely no meals are eaten outside the home and also requires considerable sophistication in food purchase and preparation. Some evidence (Orshansky, 1969) indicates that very few families whose resources are below the poverty line actually achieve adequate nutrition. Perhaps the best way of stating this argument is to ask whether in 1982 a family of four with only $180 per week for food, housing, and other goods and services could have provided itself with an adequate standard of living.

It has been argued that a minimal living standard ought not to be based on food needs but rather on general living standards in the society as a whole. If nothing else, the concept of poverty is a relative one; poverty levels of income in the United States might be viewed as very generous indeed by most developing countries. It follows that the definition of poverty ought to be based not only on changes in the cost of a fixed bundle of necessities of life but on changes in the composition of the bundle as well. Survey evidence (Rainwater, 1975) tends to confirm that the level of income perceived as the minimum needed to get by on tends to rise not only with inflation but also with increases in real living standards. An often proposed relative poverty measure is some fraction (usually one-half) of the nation's median income level. Those convinced by arguments favoring a relative standard should note that the official poverty standard has risen only with inflation since it was first developed, and thus has fallen further behind a relative standard.

The Importance of the Accounting Period

The general statement that poverty depends on a comparison of resources and needs does not address the question of the accounting period over which income and needs are measured. The official poverty definition is based on a comparison of annual family income with annual needs. A one-year accounting period is convenient, widespread, and, for many purposes, appropriate in addressing poverty-related issues. For example, we need to identify families in need of short-term emergency assistance (such as help with their winter heating bills), since a family suffering an atypical bad year without financial reserves or the ability to borrow is as needy as a family in persistently straitened circumstances. An annual or even shorter accounting period is proper for identifying families needing short-term emergency relief. However, in targeting longer-run programs, such as those seeking to improve educational opportunities or to provide job training, a one-year accounting period is too short and may misclassify many families.

Perhaps more important, a one-year accounting period may distort our understanding of the causes and consequences of longer-term poverty. The snapshot pictures of the poor provided by annual information from Census Bureau surveys show the characteristics of those individuals who are poor in any one year. If the persistently poor are in fact a smaller but *similar* subset of these one-year-poor groups, then the picture painted with Census Bureau data will not be very misleading. But if the characteristics of the one-year and the persistently poor are dissimilar, then not only will the policies directed at longer-term poverty miss the mark by relying on annual poverty information, but so too will efforts to test the various theories of long-term poverty.

The Panel Study provides information on the experiences of a representative sample of families observed over more than a decade. In the next sections, several questions concerning the extent and nature of long-term poverty are addressed using Panel Study data. First, how much turnover is there in the poverty population, and how large is the persistently poor segment of that population? Second, how are these estimates of the extent of poverty affected by raising the poverty line? Third, what are the characteristics of the persistently poor? Finally, Panel Study data are used to investigate the determinants of longer-term poverty: if there is something about these individuals or their environments that leads them to longer-term poverty, can it be identified—and can the condition be corrected?

Throughout the remainder of this chapter, poverty statistics are based on an income measure that includes cash welfare income but omits in-kind welfare income.

Patterns of Annual Poverty

Census Bureau calculations of the incidence of poverty are based on a comparison of a family's annual cash income and the annual needs standard applicable to that family. These comparisons have been made each year by the Census Bureau from its large Current Population Surveys and can be made from the Panel Study data as well. Figure 2.1 plots the path of these one-year snapshot pictures of the extent of poverty.

According to the Census Bureau figures, the incidence of poverty

Figure 2.1

INCIDENCE OF ANNUAL POVERTY IN THE UNITED STATES, CENSUS BUREAU (1960–81) VS. PANEL STUDY (1969–78) DATA

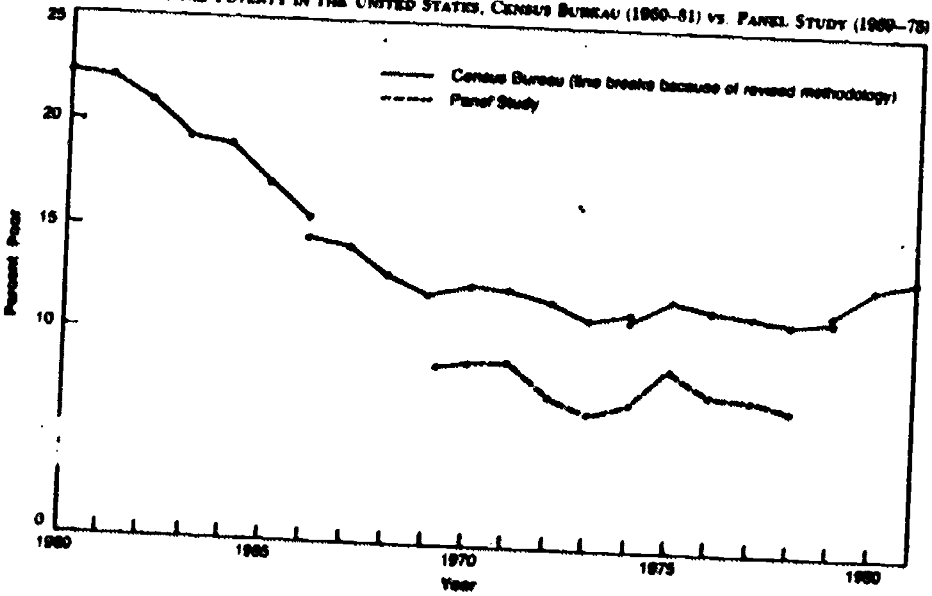
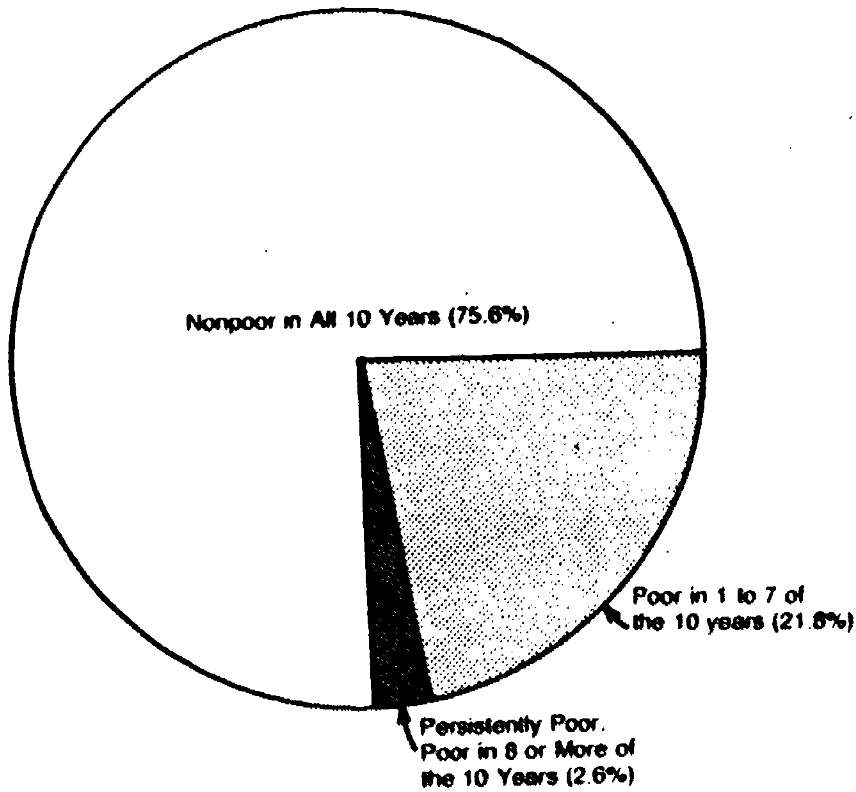


Figure 2.2

INCIDENCE OF PERSISTENT POVERTY IN THE UNITED STATES, 1969–1978



the group (and 2.6 percent of the entire population) was persistently poor. For the remainder (8.3 percent of the entire population) poverty was intermittent, occurring for three to seven of the ten years.

Raising the Poverty Standard

Since many believe that the official poverty standard is too low, it is useful to examine how a 25 percent increase in the needs standard would affect the estimated incidence of short- and long-run poverty. These effects will, of course, depend upon the size and characteristics of the group of individuals with incomes sufficient to place them just above the poverty line.

As shown in the second column of Table 2.1, these effects are dramatic. The incidence of one-year poverty is increased by more than half (from 6.8 percent to 11.0 percent), and the incidence of persistent poverty is nearly doubled (from 2.6 percent to 5.1 percent). This indicates that a substantial proportion of the population lives on the margin of poverty and would be brought into the poverty counts if the needs standard were somewhat increased.[14]

Changes in the Persistence of Long-Run Poverty

Our analysis has found substantial turnover in the poverty population during the 1969–1978 decade, with nearly one-quarter of the population poor at least once, but a very small fraction persistently poor. In looking at the entire decade, we have not yet considered the possibility that the nature of short- and longer-term poverty may have changed. Ideally, we would like to know whether the extent of turnover was as widespread in prior decades. The Panel Study information is limited to the late 1960s and the 1970s, so we are confined to examining this ten-year span for structural changes between the first five-year period (1969–1973) and the second (1974–1978). The economic conditions of these two periods differed substantially. Although there was a recession in the first period, it was mild in comparison with the deep recession during the first two years of the second period. And although single-year inflation was highest in the first period (in 1973, when it reached 11 percent), the overall rise in prices was considerably greater during the second period (32 percent) than during the first period (19 percent).

The results of this analysis are easily summarized: despite different economic conditions and social policies, there were no perceptible changes in the structure of short- and longer-term poverty. A comparison of the first five-year period with the second shows that almost equal fractions of the population were poor in at least one of the five years (17.5 percent in the first period, 16.6 percent in the second). Of these individuals, the fraction poor for one year only or for all five years was virtually identical between the two periods. Finally, there was no trend in the year-to-year poverty turnover rates. Thus, neither the extent of turnover nor the incidence of temporary or persistent poverty appears to have changed within the decade.

What Can Patterns of Poverty Tell Us about its Nature?

Movement into and out of poverty is extensive. Some individuals are poor for only a few years, while a relatively small number are persistently poor for most of the time. Panel Study data provide information on both the patterns of poverty and the characteristics of individuals with different patterns. Before linking patterns with characteristics, we explore the question of whether the year-to-year patterns of poverty themselves can shed light on its causes.

We can illustrate these patterns with information from the five-year period from 1974 to 1978. The fraction of the population that fell below the poverty line varied a bit from one year to the next during this time, ranging from a high of 8.6 percent during the recession year of 1975 to a low of 7.1 percent in the final year.[15] About one-sixth (16.6 percent) of the population was poor in at least one of those five years, while less than two percent (1.8 percent) were poor in every one of those five years.

Suppose we designate individuals who were poor in a given year with a "1" and those who were nonpoor with a "0." Each individual in the population has a five-year pattern of 1's and 0's corresponding to whether he or she was poor in each of the five years. Those who never fell into poverty would have the pattern 00000, those poor in the second year only would be represented as 01000, those poor in all but the last year would show up as 11110, and so on. What can these patterns tell us about the nature of poverty?

First, the patterns illustrate the diversity of experiences with poverty. It might be thought that those experiencing poverty would tend to group themselves into certain characteristic patterns. One might find a group with progressive upward mobility (with patterns like 11000, 11100, etc.), a group with downward mobility (00111, 00011, etc.), and a remainder persistently poor (11111). But this is not the case. There are 32 possible combinations of poverty patterns for this five-year period, and at least a handful of Panel Study individuals fell into each of the 32 patterns. The most frequent pattern, of course, is 00000, representing the five-sixths of the population that escaped poverty altogether. Of the remaining 31, the most frequent pattern was a single-year poverty episode in the recession year of 1975, experienced by only 2 percent of the population. Close behind was the 1.8 percent of the population who were poor in every one of the five years. The only other patterns that were experienced by at least 1 percent of the population were single-year poverty episodes in years other than 1975. In sum, patterns of poverty are quite diverse and refuse to conform to a simple typology.

But we can be more sophisticated in our search for order in these patterns. A crucial question regarding the nature of poverty is whether there is anything about the effects of poverty itself, rather than the personal characteristics of the poor or the effects of their environment, that leads to subsequent poverty. It is certainly true that an individual's chances of being poor "next year" are heavily influenced by whether he or she was poor "this year." The patterns of poverty between 1974 and 1978 reveal that between 50 and 65 percent of the poor in a given year were poor in the next year as well. In contrast, only 3 to 4 percent of those nonpoor in a given year were poor the next.

Although these differences are suggestive, they do not prove that it is prior poverty *as such* that causes the subsequent poverty. The true causes of persistent poverty may instead be found in unchanging characteristics of poor individuals or their environments—for example, education, sex, marital status of the family head, or geographic location. We can examine the five-year patterns more closely to distinguish between these two possibilities. To look at patterns evidenced by people who experienced poverty in at least two out of five years, suppose we take all of the individuals who were poor in both 1974 and in one of the other years. Four patterns are possible: 11000, 10100, 10010, and 10001. If poverty as such—rather than other personal and environmental factors—is itself the cause of subsequent poverty, then most of the individuals' patterns should take the 11000 form, indicating that poverty episodes tend to be self-perpetuating. But if individuals' poverty episodes are more evenly spread over all four possible patterns, then factors other than poverty itself would appear to play the stronger causal role.

Using a recently developed analytic technique to investigate these patterns, Hill (1981) found that while there was a modest tendency for poverty episodes to lump themselves together, most were in fact dispersed intermittently throughout the period, indicating a very loose relationship between prior and subsequent poverty and an important role for some other unchanging characteristics in the lives of those who were poor at some time during the period.[18]

Explaining Short- and Long-Run Poverty

Poverty has been defined as a state in which resources are insufficient to meet basic needs. In turn, the definition of basic needs is primarily a function of family size and society's judgment about what constitutes a minimal living standard for families of different sizes, while the definition of resources is primarily a function of the cash income and noncash (in-kind) benefits received by family members.

A complete explanation of why individuals are poor would require many interrelated parts. An understanding of family composition differences requires theories of marriage, divorce, and fertility. The definition of what constitutes minimal living standards requires an understanding of society's judgments of basic needs and how they change over time. Since most of a family's income comes from the labor market, we also need to know the determinants of the wage rate an individual can command for each hour worked, and understand how many hours, if any, each individual chooses or is constrained (through unemployment or underemployment) to work. Since some income is a return on savings or other assets, we need to explain why some individuals accumulate such assets and others do not. Finally, since some income comes as transfers from the government, we need to know why these various transfer programs exist, how generous they are, and why some eligible individuals do not participate in them. Compounding our task, these explanations must take family decisions, rather than individual decisions, as their base. Moreover, these components are obviously interrelated. Of particular policy concern is how transfer programs affect decisions about work hours, savings, childbearing, marriage, and divorce.

Although it is important to know how many of the poor are elderly or disabled, most theories of poverty focus on able-bodied, nonelderly adults, whose potential for rising out of poverty rests on their ability to work enough hours at a sufficiently high wage rate. Such theories of poverty consequently become theories of wage rates and labor supply. Schiller (1976) groups such explanations into categories of "flawed character" and "restricted opportunity." The "character" explanation assumes that there are abundant opportunities for improving one's economic status, but that the poor fail to take advantage of them because of lack of initiative and diligence. The "opportunity" explanations, on the other hand, contend that the poor have been denied sufficient access to economic opportunities and that, regardless of their initiative or diligence, they cannot avoid poverty unless their economic opportunities improve.

Foremost among the character explanations is Oscar Lewis's "culture of poverty" theory. Developed from anthropological case studies of poor families in a number of countries, this theory was influential in formulating policies to fight the war on poverty. The theory holds that an identifiable minority of poor families share attitudes and values that keep them poor and cause poverty to be passed on to their children as well:

Once it [the culture of poverty] comes into existence, it tends to perpetuate itself from generation to generation because of its effects on children. By the time slum children are age six or seven, they have usually absorbed the basic values and attitudes of their subculture and are not psychologically geared to take full advantage of changing conditions or increased opportunities which may occur in their lifetime (Lewis, 1968: p. 50).

In other words, Lewis thinks poverty is more a function of the way people think than of their physical environment, and thus to cure poverty one would have to change the attitudes of the poor. Lewis does not believe that all of the poor share in this culture of poverty; rather, he offers a "rough guess . . . that only about 20 percent of the population below the poverty line . . . in the United States have characteristics which would justify classifying their way of life as that of a culture of poverty" (Lewis, 1968: p. 57). The poverty Lewis describes is persistent—lasting many years and even spanning generations. Since the Panel Study was designed to include measures of some of the attitudes thought to be part of the culture of poverty, we will be able to test whether they differentiate the long-term poor from others.

The conventional economic approach to poverty is to regard it as a problem of low individual productivity. The ideological foundation for this view is the human capital theory, developed in its modern form by Becker (1975). A more detailed explanation of this theory is given in Chapter 4, but it is sufficient here to note that it views an individual's productivity as dependent upon the training acquired formally, as through school, or through less formal on-the-job training. Although the acquisition and monetary value of this training may be influenced by discrimination, nepotism, and changing labor market opportunities, the focus of the human capital approach is on the productivity of the individual.

Other theories shift the focus away from the individual to the labor market in which he or she works. The labor markets in which low-wage workers find themselves are seen as characterized by instability and little chance for advancement; indeed, career ladders may be lacking entirely. Furthermore, the dynamics of these labor markets are seen as causing workers to develop working habits that tend to lock them into their jobs and greatly reduce their chances of moving into the more stable, better-paid labor market. In this view, low-wage employment is not a result of individual productivity but rather is a result of the structure of the labor market in which low-wage workers are employed. This is clearly a "restricted opportunity" view of poverty.

The multitude of factors affecting economic well-being makes a simple, single "test" of the various theories of poverty impossible. Instead, we will begin with a descriptive overview of the characteristics of the persistently poor, followed by an explicit examination of the role of work hours, unemployment, and low wage rates as possible causes of poverty, and finally, we will look at the factors associated with changes in poverty status. This analysis parallels the general analysis in Chapter 1 of the ways in which attitudes, other background factors, and events operate to produce changes in the economic status of a group of households representative of the entire population, but differs from it by focusing on initially poor male and female heads of households.

Characteristics of the Short- and Longer-Term Poor

If we had found little turnover in the poverty population, differences in the characteristics of the short- and long-term poor would not be of concern, and the use of a one-year accounting period would not have misclassified many of the poor. An understanding of the incidence of one-year poverty would have been equivalent to an understanding of longer-term poverty. But the Panel Study data show considerable turnover, with a substantial number of individuals who are only intermittently poor, and a much smaller group who are persistently poor. When we examine the demographic characteristics of these different groups, we find striking differences between the characteristics of the persistently poor and those only temporarily poor during the decade, and notable differences between the characteristics of those two groups together and those of the group of individuals poor in a specific year (1978). The temporarily poor do not appear to be very different from the population as a whole, appearing to differ from nonpoor families only in that they have one or two bad years. In contrast, the persistently poor are heavily concentrated into two overlapping groups: black households and female-headed households.

Table 2.2 compares the demographic characteristics of individuals poor in one year (1978), individuals poor only one or two years out of the ten from 1969 through 1978 (termed here the "temporarily poor"), and individuals poor at least eight out of the ten years (the persistently poor). For purposes of comparison, the demographic composition of the *entire* population (not just the poor) is given in the final column.[17] Although the table is based on counts of *individuals* poor in the various time periods, many of the demographic characteristics relate to the head of the household in which the individual resided in 1978.

Table 2.2
DEMOGRAPHIC CHARACTERISTICS OF THE ONE-YEAR POOR, PERSISTENTLY POOR, AND TEMPORARILY POOR, 1969–1978

Demographic Characteristics Of Household Heads, 1978	Poor in 1978	Persistently Poor (8 or More Years, 1969–78)	Temporarily Poor (1 or 2 Years, 1969–78)	Entire U S Population
All Females	59%	61%	28%	19%
Elderly	13	18	7	5
Nonelderly				
White	22	11	16	10
Black	25	31	6	4
All Males	42	39	73	80
Elderly	10	15	7	8
Nonelderly				
White	21	4	54	65
Black	11	20	11	6
Rural (town of 10,000 or less)	21	33	19	15
Urban (city of 500,000 or more)	26	21	33	33
Southern U S	46	68	30	30
Disabled	31	39	17	11
Black	42	62	19	12
Number of observations	2,247	990	2,041	15,753
Estimated fraction of U S. population in each group	7 2%	2.2%	13 6%	100.0%

Table reads: "Almost three-fifths (59%) of all individuals poor in 1978 lived in families headed by a woman. Of the entire population in 1978, less than one-fifth (19%) lived in families headed by a woman."

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The following can serve to illustrate the structure of Table 2.2. In the rightmost column ("Entire Population") the numeral 6 appears in the eighth row down, showing that of the entire population, only 6 percent lived in families headed by a black man under the age of 65.[18] Relative to this 6 percent figure for the entire population, individuals living in such families are overrepresented among both the one-year poor (11 percent) and the temporarily poor (11 percent) and are particularly overrepresented among the persistently poor (20 percent). Thus, persistent poverty is considerably more concentrated among households headed by nonelderly black men than the one-year poverty figures would indicate.

In general, the demographic composition of the temporarily poor is much more similar to the composition of the population as a whole than it is to that of the persistently poor or to those found to be poor in a given year.[19] Whereas 5 percent of the entire population lived in families headed by an elderly woman, 7 percent of the temporarily poor were in such a situation. Comparable fractions were also found for families headed by an elderly man. The geographic location of both groups was similar as well. The temporarily poor were somewhat more likely to be black or to live in a household headed by a woman or a disabled individual, but these differences were small relative to the sharply different characteristics of the persistently poor.

A glance at the second column of figures in Table 2.2 reveals that the characteristics of the persistently poor differ substantially from all other groups, including the one-year poor. Persistent poverty is heavily concentrated among blacks, and particularly among families headed by a black woman. Although blacks constitute only about 12 percent of the entire population and 42 percent of the one-year poor, they account for 62 percent of the persistently poor. Almost as striking is the concentration of persistent poverty among families headed by a woman. Although just one-fifth (19 percent) of the entire population lived in such families, they accounted for more than three-fifths (61 percent) of the persistently poor. But while similar proportions of the one-year poor and the persistently poor were living in households headed by a woman, these proportions differed markedly by race. Of the individuals poor in 1978, almost one-half (47 percent) lived in households headed by nonelderly women; slightly over half of these female household heads were black and slightly less than half were white. Of the persistently poor individuals, roughly half also lived in households headed by women, but persistent poverty was much more heavily concentrated among families headed by black women than among those headed by white women—indeed, nearly one-third (31 percent) of all of the persistently poor (in contrast to 25 percent of those poor in 1978) were found to be living in families headed by a nonelderly black woman.

A comparable racial difference shows up for male-headed families. In the population as a whole, individuals living in families headed by nonelderly white men (65 percent) outnumbered those in families headed by nonelderly black men (6 percent) by 10 to 1. But among the persistently poor, the ratio actually reverses to 1 to 5, with only 4 percent of the persistently poor living in families headed by nonelderly white men as compared with 20 percent in families headed by nonelderly black men.

Poverty figures from a single year also give a misleading picture of the location of the persistently poor. Whereas more of the one-year poor lived in large urban areas than in small towns or rural areas, the proportion of the persistently poor living in large urban areas is considerably smaller than the comparable fraction living in small towns or rural areas. Taken together, the figures shown in Table 2.2 concerning the location of poverty suggest that southern and rural poverty are much more persistent than is urban poverty. These findings do not support Lewis' (1968) emphasis on northern, urban blacks nor Auletta's (1982) depiction of the persistently poor as an urban underclass. Although persistent poverty is heavily concentrated among blacks (and their poverty may well be explained by factors unrelated to their culture), it is not heavily concentrated in northern urban areas. Among the persistently poor, only about one-fifth lived in cities of 500,000 or more, a smaller proportion than of the one-year poor or even of the population as a whole. Despite the fact that the official poverty standards were lower for farm families than for nonfarm families during the 1970s, rural poverty appears to be more persistent than urban poverty, characterizing about one-third of the persistently poor.

Finally, it must be noted that the poverty counts discussed in this section include cash welfare payments in the measure of income. Excluding those payments not only increases the number of families found to be poor "prewelfare," but also results in a somewhat different geographic distribution for the prewelfare persistently poor. Long-term welfare payments are concentrated among families living in urban areas, so subtracting welfare from income results in a percentage of those living in large cities which is as high among the prewelfare persistently poor as in the population as a whole. Characteristics of the prewelfare poor are given in Table 2.3. A more complete discussion of welfare and poverty is given in Chapter 3.

Table 2.3

DEMOGRAPHIC CHARACTERISTICS OF PREWELFARE ONE-YEAR POOR, PERSISTENTLY POOR, AND TEMPORARILY POOR, 1969–1978

Demographic Characteristics of Household Heads 1978	Poor in 1978	Persistently Poor (8 or more years, 1969–78)	Temporarily Poor (1 or 2 years, 1969–78)	Entire U.S. Population
All Females	62%	62%	26%	19%
Elderly	13	15	6	5
Nonelderly				
White	24	14	16	10
Black	25	33	4	4
All Males	38	38	75	80
Elderly	5	12	7	8
Nonelderly				
White	21	10	58	65
Black	9	16	10	6
Rural (town of 10,000 or less)	19	24	20	15
Urban (city of 500,000 or more)	30	33	32	33
Southern U.S.	40	50	31	30
Disabled	31	41	15	11
Black	41	58	15	12
Number of observations	2,709	1,509	1,876	15,753
Estimated fraction of entire population in group	9.0%	3.8%	11.6%	100.0%

Table reads: "Over three-fifths (62%) of individuals whose 1978 family income excluding cash welfare payments was less than poverty needs lived in families headed by a woman. Of the entire U.S. population in 1978, less than one-fifth (19%) lived in families headed by a woman."

Work Hours, Wage Rates, and Poverty

For households headed by able-bodied individuals, earned income is viewed as the best vehicle for climbing out or staying out of poverty. Labor income is the product of two components—the hourly pay rate and the total number of hours worked. In this section, we explore the relationship between work hours, wages, and poverty, and assess the influence of abnormally low wages or few work hours on the poverty status of families.

Most of the group that we have defined as persistently poor lived in households where the head worked in fewer than half of the ten years under study. Thus it would appear that employment offers considerable potential for raising some of the persistently poor out of poverty. But a closer look at the persistently poor reveals that the vast majority live in households headed by someone who might not be expected to work because of a physical or mental disability, age, or childcare responsibilities. In fact, only about one-sixth of the persistently poor live in households headed by an able-bodied, prime-age man, and nearly half of these men worked for substantial periods in at least five of the ten years.

To what extent can the economic status of families headed by able-bodied, nonelderly men and women be improved through increased work hours or higher wages? Levy (1976) calculated answers to two "what if" questions in order to determine the effects of low numbers of work hours and low wage rates among Panel Study households headed by able-bodied individuals for the years 1967 and 1972.[20] His results are discussed in the following sections.

Effects of Low Work Hours and Unemployment

What if the heads of poor households all had full-time jobs at their reported hourly wage rates?[21] Levy found that low numbers of work hours were not a major factor in the incidence of poverty among households headed by either men or women. The typical able-bodied, nonelderly male household head living below the poverty line worked 85 percent of normal full-time work hours, and increasing work hours to 100 percent would have lifted very few out of poverty. Female household heads in poverty, on the other hand, did work many fewer hours than their nonpoor counterparts. However, their wage rates were so low that even large increases in work hours would not have pulled many of them above the poverty line.

This weak relationship between low work hours and poverty was

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borne out by an examination of poverty and unemployment undertaken by Corcoran and Hill (1980). They used Panel Study information for the years between 1967 and 1975 to calculate the fraction of the poverty population that would not have been poor if the heads of their households had been able to work the amount of time they reported being unemployed. Overall, the heads of poor households were unemployed for less than three weeks per year, losing an average of about $620 annually.[22] Unemployment compensation made up for only about one-sixth of these lost earnings. The addition of earnings lost because of unemployment would have brought only about one-tenth of all individuals in poor households out of poverty. Clearly, then, low numbers of work hours in general and unemployment in particular were not a predominant cause of poverty among the households headed by nonelderly, able-bodied individuals.

Effects of Low Wage Rates

What if heads of poor households had worked their reported number of hours at "normal" wage rates? The concept of "normal" wage rates is more complicated than "normal" work hours. The latter can be reasonably assumed to be equal to the overall average, full-time work week. But it would not be reasonable to assume that all heads of poor households could earn a pay rate equal to the overall average since hourly earnings are systematically related to the demographic characteristics that distinguish the heads of poor and nonpoor households—level of education, geographic location, race, sex, and so forth. Thus a more appropriate procedure is to define "normal" pay rates as the average hourly earnings of individuals with similar characteristics. Levy finds that based on the characteristics of the heads of poor households the *expected* average wage rates were very low—between $2.00 and $2.20 per hour in 1967 for all men and for white women, and only about $1.30 per hour for black women.[23] Low as these expected wage rates were, the actual wage rates of these men and women were still lower—between 10 and 40 percent less than the expected rates. If wage rates of poor household heads had been brought up to the expected "normal" level, while maintaining the same number of work hours, the incidence of poverty among male-headed households would have declined by 30 to 40 percent. For women, on the other hand, the increase in wage rates from the actual to the expected "normal" would not have increased labor incomes sufficiently to bring many of the households headed by a woman out of poverty.

In sum, poverty among female household heads is neither a function of an abnormally low number of work hours nor of wage rates that are abnormally low for women with similar characteristics. Normal wage rates of women with comparable demographic traits would be too low to bring many of the poor female heads out of poverty. Neither low work hours in general nor unemployment in particular keep many households headed by men below the poverty line.[24] Most of these able-bodied men work close to full time, and while a relatively small number do suffer long spells of unemployment, only a small number would be lifted out of poverty if unemployment were completely eliminated. Poverty among male household heads is much more a function of unusually low wage rates. Although the problem may be due in part to temporary misfortunes that occur occasionally and randomly, it may also stem from permanent characteristics of some men that lead to lower wages. In the next section we examine in more detail the role of personal characteristics, labor market experience, and marital status in improving the long-run economic well-being of poor families.

What Causes Some of the Poor to Improve Their Status?

We have seen the dramatic extent of turnover in the poverty population, indicating that many of those who were poor at one time subsequently escape from poverty, while a minority suffer from persistent poverty. This diversity of experience provides an opportunity to investigate the initial conditions and subsequent events that distinguish those who do well from those who do not. The analysis presented here parallels that summarized in Chapter 1, except that the unit of analysis here is the family head rather than all individuals. From the entire set of Panel Study families, we selected families that began the 1970s below or near the official poverty line and that were headed by a nondisabled, nonelderly man or woman.[25] Improvements in economic status are measured by increases in the ratio of family income to needs. The measure used here is identical to the one used in Chapter 1—an average annual growth rate in family income/needs during the period from 1971 to 1978.[26]

All in all, the growth in this measure of economic well-being was even more favorable for these initially poor families than for the population as a whole. For more than 75 percent of the male-headed families, the income-to-needs ratios grew faster than inflation, compared with about 70 percent for the female-headed families. Black female household

Table 2.4
INCIDENCE AND EFFECTS OF VARIOUS EVENTS ON GROWTH IN INCOME/NEEDS FOR INITIALLY POOR HOUSEHOLDS, 1971–1978

Event	Male Household Heads (Married or Unmarried)	
	Fraction Experiencing Event	Effect of Event on Annual Growth Rate
Marriage:		
Not married in 1971 married in 1978	8%	*
Labor Force:		
Head worked in both 1971 & 1978	89	*
Head started working	5	+5% higher growth than reference group (below)
Head stopped working	5	*
Head didn't work either time	1	Reference group
Wife worked in both 1971 & 1978	8	*
Wife started working	34	+5% higher growth than reference group (below)
Wife stopped working	8	*
Wife didn't work either time or no wife present	50	Reference group
Children:		
Number of births		2% lower growth per birth
Number of years in which children left home		1% higher growth

heads were somewhat less able to keep pace with inflation than were male and white female household heads, but even among this group, more than 60 percent succeeded in keeping up. As with the averages for the entire population, these figures conceal a great diversity of experience; some families greatly increased their economic well-being while others ended up considerably worse off than they had been originally.

In order to differentiate the successful from the unsuccessful, we used a framework similar to that used for the analysis presented in Chapter 1, distinguishing the effects of initial characteristics such as attitudes, education, and age from events like changes in marital status and movements into and out of the labor force. The events are listed in Table 2.4,

Table 2.4 (Continued)

Event	Fen. ' Household Heads (All Unmarried, 1971) Fraction Experiencing Event		Effect of Event on Annual Growth Rate
	White	Black	
Marriage:			
Not married in 1971, married in 1978	41%	14%	+7% higher growth rate than those remaining unmarried
Labor Force:			
Head worked in both 1971 & 1978	38	34	+6% higher growth than reference group (below)
Head started working	31	26	+5% higher growth than reference group (below)
Head stopped working	14	11	−5% lower growth than reference group (below)
Head didn't work either time	17	29	Reference group
Children:			
Number of births			*
Number of years in which children left home			2% lower growth

Table reads: "Of all white female household heads (unmarried) who were initially poor, 41% had become married in 1978. Of all black female household heads who were initially poor, 14% were married in 1978. Combining the two groups, those who married experienced a 7% higher annual growth rate in income/needs than did those who remained unmarried."

Note: Asterisk (*) indicates that the effect was not statistically significant.

along with their frequency of occurrence and their effects on change in economic status.[27]

By far the most important event for the economic status of female household heads was marriage. All of these women were unmarried in the first year of the period—that is, they had become divorced or separated from a previous marriage, had never been married before, or (in rare cases for these relatively young women) had become widowed. Those who had married by the end of the period had annual income/needs growth rates that were about seven percentage points higher than for those who had not married.[28] Although 7 percent may seem insignificant, in fact such an increase is quite large, lifting a family just at the poverty line in 1971 to more than 60 percent above it in 1978. There were dramatic differences, however, in the fractions of white and black female household heads who had married. More than two-fifths of the white women had married by 1978, compared with less than one-sixth of the black women. Thus, one main reason that persistent poverty is so much more prevalent among black than white women lies in their differing rates of marriage.

In contrast, neither marriage nor divorce had much effect on the economic status of male household heads. Fewer than one-tenth of these men were unmarried at the beginning and at the end of the period, and their change in economic well-being did not differ significantly from that of comparable men with other marital patterns.

Movements into and out of the labor force might be expected to produce substantial change in economic status, and this was indeed found to be the case, especially for female household heads. Compared with the group of female heads who were out of the labor force at both the beginning (1971) and the end (1978) of the period, those entering the labor force did substantially better, and those leaving it did substantially worse.[29] Perhaps surprisingly, the women who had been working at both points in time and had begun at a higher income level also had the highest income/needs growth rates—6 percent higher, on average, than the reference group composed of those out of the labor force in both 1971 and 1978.

For the male household head, growth in economic status was significantly enhanced if either he or his wife entered the labor force. Note, however, that the vast majority (89 percent) of these able-bodied men under the age of 45 were working at both points in time.

Other demographic events also had some effects. Births were associated with lower income/needs growth rates in households headed by men, presumably because births reduce the work hours of wives and increase family needs. The effects of births were not strong enough to be statistically significant for households headed initially by women. Children leaving home had a significant effect on both groups, but with contrasting results. For male-headed families, children who left had consumed more than they had earned so their departure had a positive net effect on the growth in income/needs. The reverse was true for female-headed families—the net result of their children's departure was to take away more in income than they had consumed and thus lower the growth in well-being of the family left behind.

As a second step in the analysis, we attempted to distinguish successful from unsuccessful households by using a set of characteristics measured in the initial years, including race, attitudes, age, and education. Here the results differed substantially for the female and male household heads, and each group is discussed in turn.[30]

Race was one of the most powerful predictors of which of the initially poor female household heads would do better in subsequent years, with white women enjoying annual growth rates in income/needs that were about four percentage points higher than those of black women. This effect was estimated using a statistical procedure that made adjustments for differences in age, education, attitudes, and initial level of income/needs, so the racial differences could not be attributed to differences in any of these characteristics.[31] An investigation of the role of race in the various events confirmed the importance of marriage in producing this difference: more than half of the race difference could be attributed to the lower incidence of marriage among black female heads of households. None of the other events accounted for a significant share of this racial effect.

Analysts have made repeated attempts to test whether the attitudinal measures were capable of identifying the initially low-income families who would do better subsequently. Morgan made the first and in some respects most thorough attempt, and he summarizes his findings, based on five years of information, in the following way: "[O]ur search for possible individual attitudes and behavior patterns . . . that may affect family status . . . [showed that] . . . nothing individuals believe or do has an effect that persists consistently through the different statistical procedures and measures" (Morgan, 1974: p. 75). Two years later he reached the same conclusion from his analyses of seven years of data (Morgan, 1976).

In the present analysis, there was some evidence that women with higher initial levels of achievement motivation were subsequently more successful, primarily because of increased chances of labor force entry and decreased chances of leaving the labor force, but many of these estimated effects were on the borderline of statistical significance. The effects of efficacy on income/needs growth were also positive but not statistically significant at conventional levels. The effect of the other attitudinal measure, future orientation, was negative but insignificant.[32]

These initial characteristics were considerably less able to differentiate successful and unsuccessful male household heads. Black men had growth rates in income/needs that were about three percentage points lower than for whites, but these differences were only at the margin of

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statistical significance. Those with higher levels of education did somewhat better; the growth rates of high school graduates were about two percent higher than the growth rates of those with only an eighth grade education. Attitude differences failed to account for high and low growth rates.

Summary

The Panel Study's decade-long survey of poverty shows that the popular conception of "the poor" as a homogeneous, stable group is simply wrong. Although the series of snapshot pictures of poverty provided by the Census Bureau surveys show fairly constant numbers and characteristics for poor families each year, actual turnover in the poverty population is very high. Only about two-thirds of the individuals living in families with cash incomes below the poverty line in a given year were still poor in the following year, and only about one-third of the poor in a given year were poor for at least eight of the ten prior years. Although the living standard afforded by a poverty level income may be unrealistically low, and although many individuals climbing out of poverty may not go very far, it is clear that persistent poverty characterizes a considerably smaller fraction of our population than the one-year figures would suggest. The addition of in-kind (noncash) benefits from the government would decrease the estimates of persistent poverty still further, although the effects on poverty of programs that assist families having extraordinary (e.g., medical) needs can be overstated.

The flip side of the turnover coin is that poverty touched the lives of a surprisingly large fraction of the population over a ten-year period. About one-quarter of the population was found to have lived in poor families in at least one of the ten years between 1969 and 1978, but for half of this group, poverty years did not occur more than twice. Very few characteristics distinguished those individuals from the population as a whole. They were somewhat more likely to be black or to live in families headed by a woman, but on the whole, the main difference between them and the rest of the population was simply that they had experienced one or two particularly bad years.

In contrast, the characteristics of the persistently poor were quite different from those of the population as a whole and even differed from the characteristics of individuals found to be poor in a given year. The single most powerful factor that distinguished persistently poor people from the poor in a given year was race—more than three-fifths of the persistently poor were black. Although it has long been known that the incidence of annual poverty is considerably higher among black families than white, the Panel Study information, spanning more than a decade, reveals that blacks are even more disproportionately represented among the persistently poor than among the poor in a given year. The effects of race were particularly strong for families headed by a woman, and could not be attributed to differences in such characteristics as education or attitudes.

Although the economic fortunes of many low-income individuals fluctuate a great deal from one year to the next, it was possible to identify some who had improved their economic status. For low-income women who headed their own households, marriage was the most important factor associated with increased economic well-being. This improvement held true for both white and black women, but marriage itself was much more frequent among white women. For men who headed low-income families, changes in marital status did not significantly affect economic status. And, finally, there was no evidence that the initial attitudes of male household heads affected their subsequent improvement in economic status, and there was little evidence of such effects for female household heads.

Implications

Findings from the Panel Study show, most importantly, that it is crucial to distinguish between those who fall into relatively brief periods of poverty and those who are unable to meet basic needs for prolonged periods. The characteristics of the temporarily poor are similar to those of the population as a whole—there appears to be virtually no demographic attribute that distinguishes people with brief contact with poverty from the rest of society. The implication is that few people are immune to such events as personal illness, adverse local or national economic conditions, or the death or departure of a spouse; and for a substantial proportion, these events can precipitate a year or two of severe hardship. For them, antipoverty programs are perhaps best viewed as insurance programs, available if necessary to cushion them against the most severe impacts of their temporary misfortune. Given time to adjust, they will be able to move out of poverty on an essentially permanent basis, and will presumably be paying taxes to support the very programs that once aided them. The majority of these people escape from temporary poverty in the same ways that most people avcid entering poverty: by acquiring a job with decent pay or marrying someone who has one.

Less than 3 percent of the population were members of the group we defined as persistently poor. Although government programs aimed at fulfilling short-term needs (e.g., help in paying energy bills) need not distinguish between the shorter- and longer-term poor, programs aimed at curing longer-term poverty clearly do need to make that distinction. One type of program allocates aid to state and local units of government based on the economic status of the population—for example, grants to school districts, based on annual poverty counts in the counties containing those districts.[33] But other programs, including Federal Revenue Sharing, use income levels as a criterion in allocating their funds, and their definitions of poverty are typically based on an annual accounting period. If we had found that the persistently poor were a similar but merely smaller subset of the one-year poor, then the use of the one-year accounting period would not be misleading. However, we found that the characteristics of the persistently poor differed markedly from those of the one-year poor, suggesting that allocations based on one-year figures are not efficiently targeted to reach the longer-term poor. In particular, for rural areas, the South, and especially areas with heavy concentrations of blacks, allocations based on one-year figures are lower than warranted by the longer-term poverty prevalent in these areas.

Most antipoverty programs allocate aid to families and individuals, rather than to school districts or states, and these too need to be formulated with an understanding of the extent and nature of longer-term poverty. The demographic characteristics of the persistently poor provide some clues about the nature of long-term poverty and have implications for possible policies to combat it.

One-third of the persistently poor are elderly people, who have severely limited opportunities to escape from poverty through either of the two most common strategies—by acquiring a job with decent pay or marrying someone who has one. Thus it is not surprising to discover that the elderly, regardless of race or sex, are disproportionately represented among the persistently poor. Of course, persistent poverty is not a characteristic of the majority of the elderly. A thorough understanding of why a certain group of the elderly spend their last years in continual poverty requires long-term information—as yet unavailable—on their working lives and past family situations. But given the existence of a group of persistently poor elderly people, the only apparent method for eliminating such hardship is to provide direct public transfers. In the past decade major advances in this direction have been undertaken with the liberalization of Social Security eligibility requirements and benefit levels and the introduction of the Supplemental Security Income (SSI) program. These reforms have undoubtedly reduced the number of elderly people who live in long-term poverty. But the Social Security program does not cover all of the elderly, and the effectiveness of the SSI program has been weakened by low participation rates among those eligible as well as by the fact that benefit levels are insufficient in themselves to remove the elderly from poverty. Increases in benefit levels and better delivery of these benefits to the elderly appear to be the only short-term policy to eliminate persistent poverty among this group.

Of the remaining two-thirds of the persistently poor—those who are not elderly—65 percent live in households headed by women, and almost three-quarters of these women are black. Most of the women in this group have children at home, a fact that has two-fold implications for the nature of their poverty. Children not only increase the household's needs for income but impose child-care responsibilities that severely constrain the single parent's ability to work full time. Although public opinion concerning the competing demands of child care and employment appears to be changing as more women enter the labor force, it is still not clear whether as a matter of policy mothers should be encouraged to entrust their children to the care of others so that they can work.

Unfortunately, even if more child care were provided to help single parents balance child-care responsibilities with full-time employment, the available evidence indicates that these women are unlikely to find jobs paying enough to remove them from poverty. Whether low wage rates for women are a result of low productivity or some institutional factor, such as pure discrimination, is an issue of considerable debate. Evidence detailed in Chapter 6 indicates that a substantial part of the wage gap between women and white men cannot be attributed to differences in conventional measures of productivity, implying a considerable role for institutional factors. If this is true, then labor market solutions to the persistent poverty of women who head their own households would have to be far-ranging indeed, encompassing more than the traditional productivity-enhancing manpower [sic] training programs (whose record of success has not been encouraging). Antipoverty programs would have to aim at restructuring the basic institutional arrangements of the labor market, surely a difficult task.

Another common avenue for women to escape persistent poverty is to marry or otherwise combine households with a man whose income (either alone or combined with the woman's income) is sufficient to meet basic needs. The evidence indicates that this route is often taken by white women, but not by black women. The fact that black men are also disproportionately poor lessens the black woman's opportunities for marriage to someone whose income would lift the household out of poverty. In any event, it would not seem appropriate for public policy to exert any active influence on fundamentally private decisions regarding one's living arrangements. The major role of policy with respect to family composition should be no more than to avoid either inadvertently discouraging marriage or remarriage, or encouraging marital dissolution.

One possible long-range approach to preventing long-term poverty before it occurs is to prevent unwanted pregnancies by providing increased birth control information and sexual guidance. Unfortunately, the relevant programs initiated to date do not appear to have been particularly successful. Moreover, certainly not all births in this group were "unwanted," let alone unplanned. Marriage itself, after all, can result in unwanted outcomes of divorce or separation, usually leaving children in female-headed households. Stricter child-support enforcement laws designed to collect from an able father a more substantial amount of the cost of raising his children are one possibility. But past efforts in this direction have been only marginally successful, and because of the typically low incomes of black men, have had virtually no effect on the situation of black women. All in all, one is left with the disheartening conclusion that, as with the elderly, direct public transfers offer the most feasible solution to the difficult problem of persistent poverty among nonelderly female-headed households with children.

Very few nonelderly white men are persistently poor, a fact that presumably reflects their more favorable labor market opportunities. The situation is different for nonelderly black men, who account for a substantial portion of the persistently poor. The possibility of labor market solutions—in particular, programs aimed at raising wage rates—seems most promising for these groups of nonelderly men. The evidence suggests that most individuals in these groups work when jobs are available, but receive abnormally low wages. If they could earn wages normal for persons with similar characteristics, the chances are good that the burden of poverty could be lifted from them. Thus, wage subsidy programs or other programs aimed at increasing their wages, including programs to eliminate racial discrimination in the labor market, appear to be desirable approaches to eliminating the persistent poverty of this group.

A final set of implications of our findings on longer-term poverty concern the efficacy of programs based on the notion of a culture of poverty. Can poverty be eliminated if we change the way poor people think? The relationship between individuals' attitudes and their economic status is a complicated one, and calls for further research, but we see little need to change the qualifications and conclusions reached by Morgan and others after the first five years of the Panel Study project:

> Can one really assert that because we find little evidence that individual attitudes and behavior patterns affect individual economic progress, that massive changes in those attitudes and behaviors would have no effect? Of course we cannot. . . .
>
> Perhaps there has not been enough time for attitudes and behavior patterns to exert their effects over inertia, random fluctuations, and sluggish aggregate economic conditions. Perhaps we have not measured the right things or have not measured them well enough. Perhaps we have not adequately isolated the autonomous groups for whom individual factors can show their effects and not be dominated by other factors.
>
> On the other hand, we may have been oversold on the Protestant Ethic and have refused to see the extent to which people are the victims of their past, their environment, luck, and chance.
>
> It is after all difficult to believe that there are not some situations where individual effort matters—in seizing opportunities for better jobs, moving to new areas, or avoiding undue risks. But for public policy purposes and for arguments about the extent to which one could reduce dependency in our society by changing the behavior and attitudes of dependent members, the findings certainly do not encourage expectations that such changes would make much difference (Morgan et al., 1974, p. 366).

Notes

[1]For a review of the development of the official poverty standard and its competitors, see U.S. Department of Health, Education, and Welfare (1976).

[2]Some would dispute this definition and argue that poverty depends not only on the level of resources but the way in which they are used to provide a standard of living. See, for example, Rainwater (1975) and Townsend (1979).

[3]Among the several different food cost estimates (descriptively titled "thrifty," "low cost," "moderate cost," and "liberal"), the most parsimonious, "thrifty" plan, is used as a basis for the official standard. Examples of these estimates of weekly food needs in March 1980 were: $14.80 for a 20- to 54-year-old man, $12.10 for a 20- to 54-year-old woman, and $6.70 for a child under the age of 3. Food needs are summed for all family members and multiplied by 52 to obtain an estimate of annual food needs. To go from food needs to total needs, the former are multiplied by a factor of roughly 3. The justification for this is that information on expenditures of low-income families show that, on average, roughly one-

third of their income is spent on food. A number of other adjustments are made, the most important of which are downward adjustments for larger families because they enjoy "economies of scale", that is, many fixed living expenses such as those for heat do not increase proportionately with an increase in family size. The opposite adjustment is made for very small families. Until 1980, the needs of farm families were assumed to be 80 percent of those of otherwise comparable nonfarm families. The official poverty thresholds are listed in Census Bureau publications entitled "Characteristics of the Population Below the Poverty Level," Current Population Surveys, Consumer Income, Series P-60.

[4]An alternative to incorporating leisure time into the income concept is to express the needs standard as a function of money and time. See Vickery (1975).

[5]See, for example, the articles by Paglin (197) and Browning (1975), or a general summary of the argument in Anderson (1979), Chapter 1. The valuation of in-kind benefits is surprisingly difficult. A dollar spent subsidizing rent is not appreciated as much as an extra dollar of income, since the dollar, if given as cash, may have been spent for food, transportation, or something else valued more than the additional housing. Food stamps are the closest in-kind benefit to cash, and if the recipient makes additional food expenditures out of his or her own pocket, then it can be argued that a dollar-for-dollar correspondence exists.

[6]Some analysts have avoided this criticism by treating medical benefits according to their insurance value rather than the full dollar value of benefits actually received.

[7]It may seem unreasonable to expect that a group of some five thousand families can generate accurate estimates for a nation of more than 60 million families. The technical explanation is lengthy, but a simple analogy illustrates the technical principle. In order to test the characteristics of a batch of soup, it is only necessary to take one well-mixed, *representative* spoonful regardless of how large batch of soup is. The same is true with sample surveys. If the families are chosen carefu..y to be *representative* of the population of families, then fairly reliable estimates can be made from samples as small as 1,000. Larger samples increase the precision of the estimates (and increase one's ability to make accurate estimates concerning important demographic subgroups of the population), but doubling the size of the sample does not double the precision of the estimate. Furthermore, it takes almost as large a sample to make estimates of the population of a city or state as it does for the nation as a whole.

[8]See Morgan (1977) for a comparison of the characteristics of the Panel Study sample with characteristics of the samples of several large surveys conducted by the Census Bureau.

[9]Minarik (1975) reaches this conclusion after a detailed examination. It may result from the facts that the list of income-related questions is more complete in the Panel Study, the rapport built up through repeated interviewing may make a difference, and respondents may think that a university-based survey organization is less threatening than a governmental one such as the Census Bureau.

[10]The first analyses of the income dynamics of the poor with Panel Study data were presented in Morgan et al. (1974) and Lane and Morgan (1975). Work by Levy (1976) extended this work considerably, as has the work by Coe (1978), Rainwater (1980), and Hill (1981).

[11]An alternative approach would be to compute ten-year *average* income and relate it to ten-year average needs. It has the opposite disadvantage, namely, that one exceptionally good year could cause a family poor in nine of the ten years to have ten-year average

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income greater than needs, and thus the family would not be classified as persistently poor. The group of persistently poor (in at least eight of the ten years) is about three-quarters the size of the group with ten-year income less than needs, and there is a great deal of overlapping between them. More than 96 percent of the persistently poor have ten year average income less than needs, while more than half of the group with ten-year average income less than needs are also persistently poor. Virtually all (97 percent) of the individuals with ten year income less than needs are poor for at least five of the ten years.

[12]In looking at the entire population over the ten-year period of 1969 through 1978, we must restrict the analysis to those individuals who were living for that entire period. Thus, anyone born after the beginning of 1969 and anyone who died before the end of 1978 was excluded. A similar restriction was imposed on the analysis presented in Table 2.1.

[13]It is tempting to consider all individuals who were poor in only one or two of the ten years as having short spells of poverty. But this would not be entirely accurate, since some who were poor only in 1978 may be in just the beginning of a long spell of poverty that extends beyond 1978, and some who were poor only in 1969 may have been at the end of a long spell that extended prior to 1969. In looking at patterns of poverty in the period from 1970 to 1979, it is found that about 12 percent of the individuals with one or two years of poverty were, in fact, poor in 1979, with about 24 percent more poor in 1970. Indeed, it is possible to cast an analysis of short- and long-run poverty in terms of spells of poverty rather than the incidence of poverty over a specified length of time. Bane and Ellwood (1982) performed such an analysis with data from the Panel Study and found what appeared to be a paradoxical result: of the individuals *coming into contact with poverty*, most turn out to have spells of poverty that last only one or two years; but of all the individuals who are *poor in a given year*, most appeared to be in the midst of a long spell of poverty. The reason for the apparent paradox is that those who do experience long spells simply have a much greater chance of showing up as being poor in a given year.

[14]Similar results were obtained by Rainwater (1980), who developed a relative standard of poverty by ranking all families each year according to their income/needs. The median income/needs was determined by finding the income/needs level that divided the sample of families precisely into two equal groups. The poverty line each year was then defined as one half of the median income/needs in that year. His poverty line is considerably higher than the official one, so that his estimate of single-year poverty in 1975 (18 percent) was twice as high as the one estimated with the official standard. Confining his analysis to adults age 18 and older, he finds 5.2 percent of the sample was poor by his definition in every one of the ten years between 1967 and 1976, compared with the 2.6 percent figure shown on Table 2.1 based on the official standard. In defining persistent poverty, Rainwater argues that it should include not only those whose incomes fail to rise above his relative poverty line, but should also include those whose incomes are insufficient to escape near-poverty, which he defines as between one-half and seven-tenths of the median income/needs. All in all, 16 percent of the entire adult population are estimated to be in long-term poverty.

[15]The 7.1 percent estimate of poverty in 1978 differs from the 6.8 percent figure shown in Table 2.1 because the two figures are based on slightly different population groups. The 7.1 percent estimate is based on all individuals living during the period from 1974 to 1978. The 6.8 percent estimate is based on the population living during the 1969 to 1978 period and thus excludes children who had not reached the age of five by 1974.

[16]The techniques for analyzing patterns of poverty and other important events are still

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in their infancy. Their development has been associated with the growing number of researchers who are analyzing the various longitudinal data sets now available.

[17]The first column of numbers in Table 2.2 is based on all sample individuals who were living in 1978. All other numbers in the table are based on all sample individuals who were living during the entire 1969 to 1978 period.

[18]Since families change composition, this statement can be made more precisely: the 6 percent figure is the fraction of the entire population who lived in families headed by a nonelderly black man *in 1978*. They may have lived in families headed by someone else earlier in the decade. Characteristics that change over time make it difficult to develop a more complete table. For example, rather than fixing the characteristics at a point in time, we could have detailed the poverty fractions according to the number of years the family head was a black man, a woman, etc. Such an analysis was conducted, but did not alter the conclusions based on Table 2.2.

[19]As mentioned above, not all of the group defined as "temporarily poor" experienced short spells of poverty. The problem is that in any given period of years, some individuals will be just beginning or just ending long spells of poverty. Their poverty is temporary in the sense that it did not occur in more than one or two *of the ten years studied*.

[20]Levy's population consists of families headed by nondisabled individuals under the age of 60 whose income exclusive of welfare payments was below the poverty line.

[21]In fact, the definition of "full time" varies somewhat according to the race and sex of household heads but is always within 300 hours of the full-time 2,000 hour mark. In his computations, Levy does not adjust the work hours of household heads with *zero* work hours—a restriction that applies to less than one-tenth of male household heads and less than one-quarter of female household heads without children. Between one-third and three-fifths of female household heads with children reported zero work hours. Hourly wage rates were calculated by dividing annual labor income by annual work hours.

[22]These averages conceal a great disparity in the *distribution* of unemployment among these household heads. About one-third of the poor household heads escaped unemployment altogether during the nine-year period.

[23]Levy's list of characteristics used to define normal wage rates include: age, education, region, city size, whether disabled, whether union member, and whether a farmer.

[24]Since unemployment rates have been considerably higher in the early 1980's than in the 1960's and 1970's, they may play a more important role in producing poverty. Levy's analysis was conducted for a time period in which the unemployment rate was consistently below 5 percent. However, Corcoran and Hill's (1980) analysis includes the recession of 1974-75 in which the unemployment rate rose to 9 percent.

[25]More specifically, the analysis is restricted to nondisabled male household heads less than age 45 in 1972 whose family income between 1969 and 1971 averaged less than 1.5 times family needs during that period. There were 229 such families. Also included in the analysis were nondisabled female household heads less than 45 years of age in 1972 whose family income in 1971 was less than 1.5 times the official poverty needs standard. There were 257 such families—206 blacks and only 51 whites. The relatively small number of whites precludes a separate analysis for them. The present analysis was undertaken especially for this book, but the general results are similar to those found in Morgan (1974).

[26]As discussed in Chapter 1, this growth rate is calculated from all of the annual observations on family income and family needs during the eight-year period and is adjusted for inflation; accordingly, a positive growth rate indicates that family income/needs

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more than kept up with inflation. A growth rate of 9 percent will roughly double a family's income/needs level in this eight-year period.

[17]The initial characteristics included here are identical to those in Chapter 1, except that the initial level of income/needs was included in the predictor list and the index of undue risk avoidance was excluded.

[18]The estimated impact of individual events on income/needs growth rates presented in this section was adjusted statistically for the effects of other events and initial characteristics.

[19]The number of ·   ·l work hours used to define labor force status was 500. Individuals reporting more .   0 work hours in a given year were deemed to be in the labor force, those with les.   500 hours were out of the labor force.

[20]Since these regression results have not been published elsewhere, they are detailed in the Appendix to this ch pter.

[21]This adjusted race e.   t was about four-fifths as large as the simple, unadjusted effect.

[22]The achievement motivation measure was administered in the fifth (1972) wave of interviews and was not available for Morgan's 1974 analysis. Other results of interest from the statistical analysis are that an index of connectedness to sources of information and help had a negative effect on income/needs growth, possibly because it captures a propensity to remain fixed geographically and not take advantage of existing opportunities. Income/needs growth was much slower for women in the older age ranges, principally because their chances of remarriage were less favorable.

[23]This program is Title I of the Elementary and Secondary Education Act of 1965 as amended in 1974. Other examples are Title I of the Housing and Community Development Act of 1974 and the Comprehensive Training and Employment Act (CETA) of 1973.

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A RIGHT TO SUBSISTENCE

by Sheldon Ackley

Every person in this country has a guaranteed right to life, liberty, and property. This should include a right to the fundamentals of life, the basic necessities of which vary from time to time but certainly in our society include food, housing and clothing, minimal health care, educational opportunity, and the chance to earn these basic necessities if one is capable of doing so.

In its effort to control the economy, the government regulates industry, the fiscal and tax systems, the rates of inflation and employment, and other macroeconomic factors in such a way as to provide security for most of us while leaving others without the necessities of life, and thus depriving them of the equal protection of the laws. When the government deprives individuals of the basic necessities of life in order to benefit others, it has taken from them without due process of law and without just compensation. The government should provide the necessities of life to all people, and such provision should be equitable, without conditions placed upon other constitutional rights, and without undue invasion of personal privacy.

That life, liberty, and property are constitutionally protected has never been seriously disputed. The due process clause applies to both the federal and the state governments, quite apart from any twentieth century theory of absorption. However, the meaning of life, liberty, and property and the meaning of due process have been very much at issue over the years. Their interpretation has shifted with the changing relationship between the citizen and his or her government—and with the shifting concepts of human nature and social needs. At no time has due process been understood to guarantee subsistence, or even the opportunity to earn the necessities of life. There is no recognized constitutional right to the basic necessities of life to which a person lacking subsistence may lay claim to government assistance.

My argument is that, since individuals are placed in their economic circumstances largely by "state action," government has an obligation to provide them with the necessities of life. This is by no means a novel proposition. In his book *Of Civil Government*, John Locke, explaining the rights he considered to be "natural" and therefore to be protected by any legitimate government, wrote: "Men, being once born, have a right to their preservation, and consequently to meat and drink and such other things as Nature affords for their subsistence" (Ch. 5, "Of Property"). Locke meant that men could not be expected to contract away their very subsistence for the advantages gained in joining with others to form a government. This might be understood to imply an obligation on the part of government to provide a means of subsistence; it at least means that government may not deprive its citizens of the basic necessities of life.

If Locke's "subsistence" and the Supreme Court's "basic necessities of life" are matters of right, they are clearly substantive rather than procedural, and should be clearly defined. It would be a mistake, however, to insist upon a complete definition. What is considered essential to life or definitive of subsistence varies from one society to another, and within one society it varies from time to time. Statutes have relied upon such phrases as "compatible with decency and health," "tolerable living environment," "basic standards of human decency," etc., the meanings of which have changed in recent years. Perhaps one of the most acceptable is the one adopted by the General Assembly of the United Nations in 1948, Article 25 of the Universal Declaration of Human Rights, which states:

> Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances

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beyond his control.

Hidden in these phrases is room for the interpretation of adequacy, need, service, etc., and underlying the declaration is an ethical view and a social outlook.

As long as the standard remains undefined, it is impossible to tell just how many people are living below subsistence. But the number is a very large one. At any given moment, approximately 16 to 20 percent of the total population in this country is living on an income below that which the government declares as the poverty level. S.M. Miller and P. Roby claim that poverty is relative deprivation and therefore propose that subsistence requires an income about half as large as the average income in the country.[1] Using this criterion, about 20 percent of the population has an income too small to support life at a subsistence level. On any standard, about 40 million Americans are without the basic necessities of life, lacking what Locke referred to as the means of "preservation."

This problem is a basic one. It affects millions of people, raises important constitutional issues, and requires an understanding of the fundamental elements of our economy, especially the role played by the government in controlling it. The facts lead us to the conclusion that the poor are in that position, almost without exception, for reasons over which they have no control. They are either sick, disabled, or incapable of supporting themselves (the "deserving poor" of Elizabethan days) or they are prevented from working at a subsistence wage because it is in the public interest to keep them unemployed, underemployed, or underpaid. The public policy underlying the latter group's situation demands the creation of a constitutional right if there is not one already established on other grounds.

FREE ENTERPRISE: PERSONAL RIGHTS DENIED

When J. B. Clarke wrote his famous and influential work, *The Distribution of Wealth*, in 1899, he began with the following words:

> It is the purpose of this work to show that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates.

Clarke wrote at a time when, as the popular view had it, government merely stood to one side and permitted the "laws" of the market to operate freely, but in fact private businessmen had considerable help from government during this period.

One of government's primary aids was the development of legal concepts which gave private enterprise a free hand economically, while reducing its liability for any union and social costs. Without decisions to uphold the right of competition (without liability for damages), said one court, "the public, whose advantage is always to be regarded, would be deprived of the benefit which always attends competition and rivalry."[3]

There is no recognized constitutional right to the basic necessities of life.

This attitude led the courts to sanction almost any action taken by business and increasingly to view governmental regulation as an intrusion upon a process which was both natural and socially beneficial. (Thus developed the doctrine of substantive due process.) The welfare of individuals in this period was subordinated to the demands of enterprise and exploitation was accepted by the courts as a necessary concomitant of competition. In fact, it became a matter of right for a worker to be exploited. As Justice Peckham stated in *Lochner vs. N.Y.*, "statutes . . . limiting the hours in which grown and intelligent men may labor to earn their living, are mere meddlesome interferences with the rights of the individual."[3] Peckham's decision was based on the belief that the worker's "right to contract"—in this case his right to sell the product of his labor (his "property")—was of all rights "the most essential to human happiness."[4]

Constitutional law has reflected this perception in its treatment of the rights, or nonrights, of the poor. Behind these decisions, as Walter Gellhorn states, is the assumption that

> American constitutional theory reflects the supposition, conceivably valid in an earlier day, that hard work, clean living, and right thinking will bring every able-bodied man victory. In that once popular view, poverty was traceable to personal dereliction; it was a failure of the individual, not a failure of a society ever full of promise.[5]

Our constitutional law is still based upon the view that freedom of opportunity exists in this country and that failure to obtain the necessities of life is a mark of purely personal failure.

Initially, the courts in this country even found reasons to invalidate rights to assistance growing out of legislation. A Pennsylvania statute was set aside in 1925 on the grounds that public assistance grants ran counter to state constitutional provisions which prohibited payment of gratuities out of the public treasury. To overcome this difficulty courts found a basis for such grants in the state's police power.[6] Thus, the state's action was justified as a means to further the general welfare rather than as a means to further the welfare of individuals; the grants were gratuities rather than matters of right. However, this rationale went farther toward justifying state intercession into the personal affairs of the poor than it did toward justifying assistance to them. It clearly left those in need with no rights to which they could appeal and continued the "traditional view that this phase of our social and economic life is inherently nonjusticiable."[7] Government still was not obligated to provide the basic necessities of life to those who could not obtain them. In the common sphere, while the Constitution prohibited certain governmental interferences with the individual's pursuit of happiness, it did not command government to establish the minimal conditions of happiness when the individual's pursuit failed."

Although as Gellhorn states, "Nobody doubts that impersonal forces are the main determinants of personnel displacements and personal economic disappointments," we still use a legal standard which presumes that J.B. Clarke was right in his economic theory. We ignore not only the evidence that he was wrong in 1895, but also all the remarkable changes in our economy that have occurred since then.

THE GOVERNMENT-RUN ECONOMY

The participation and influence of government (federal, state and local) with regard to economic matters are much greater than most persons suspect. The government, chiefly federal, uses a number of methods to stimulate productivity (often measured by GNP) or economic growth and maintain economic stability. In doing so it also seeks to control inflation and employment. The latter two goals, though secondary to productivity, are so important socially through affecting citizens' well-being, political decisions, and redistribution of wealth that they are almost as important objectives for public action as productivity goals. Among the methods used are the following:

- *Fiscal policy* is "the deliberate utilization of the government's taxing and expenditure powers . . . to help the stability and growth of the national economy."[10] It is comprised chiefly of conscious decisions to increase or decrease taxes or to create a budget surplus or deficit to influence the level of economic activity. Paul Samuelson, not the most sympathetic observer of public planning and intervention, has written, "Now that governments are large, claiming to have no fiscal policy is like claiming to be dead."[12]
- *Monetary policy* is the control of the supply of money by a central banking system. In this country the Federal Reserve Board and banks use monetary and credit policies "designed for high productivity and price stability."[11] The chief tools of the policy are changing reserve ratios, changing the discount rate, and buying and selling government bonds in the open market.
- *Public allocative decisions* affect both the level of economic activity and the relative prosperity of various segments of society. Perhaps most obvious among these decisions are those maintaining a "war economy," whether or not there is a war, and involving us in occasional adventures such as Vietnam. (It has been estimated that the cost, economic only, of

Business increasingly viewed governmental regulation as an intrusion upon a process which was both natural and socially beneficial.

post-World War II military expenditures by the United States now amounts to over $100 billion a year and constitute a major depressant on the economy.[14] This does not include the cost of current military expenditures, which are also approximately $100 billion a year.) Similar, though smaller, impact could be estimated for allocative decisions to serve as "employer of last resort"; to subsidize industries; to raise or lower tariffs; to invest in research; to increase or decrease support for education or health services or welfare assistance; to buy or sell commodities or raw materials; to impose wage or price controls; and to regulate production of certain items. In most such cases, the effect upon the economy in general would be incidental to other social purposes, many of them redistributive in nature.

Whether fiscal and monetary policies can greatly influence the economy depends upon the size of public expenditures. Government expenditures on all levels are about one-third as large as the GNP. This is not surprising, since about one-third of the wealth in the nation is owned publicly. Public spending has increased much more rapidly in the past 40 years than have private expenditures. In 1929, government purchases of goods and services were only one-half as much as private investment spending; by 1966 total government purchases were 30 percent larger than private investments.* In terms of its contributions to GNP, government is now second only to public consumption.[15]

There is no significant debate about whether government can and does direct the level of economic activity, only debate about whether it should do so and how it can do it more successfully. A jabbing comment from Arthur F. Burns, chairman of the Federal Reserve Board, directed at Milton Friedman, University of Chicago economics professor, in testimony before the Joint Economic Committee in 1974, provides a neat summary of this. According to *The New York Times*:

> Burns suggested that Professor Friedman gave too much weight to monetary policy and too little to fiscal policy in tracing the origins of the current inflation.
>
> In a gentle poke at Professor Friedman, the Fed's chairman said the Chicago academician—who is a well-known conservative with a strong penchant for the free market—acted as if the Government still played a rather minor role in economic activity. Dr. Burns implied that while this viewpoint might have been reasonable 50 or 100 years ago, nowadays the Government is heavily and correctly

* These figures exclude public "transfer payments"—benefit payments (OASI, subsidies, public assistance, etc.) rather than purchases. If these were included, public expenditures would be twice as large as private investment spending.

involved in stabilizing economic activity through both fiscal and monetary policy.

The reasons for attempting to control the economy are clear. The government seeks to avoid wild swings in the economy, such as those which recurred in the years before World War II; to increase job security for those who are employed and increase the number of employed persons; to manage money so that inflation will not dissipate savings; to encourage and aid economic development, to control fraud, insure availability of utilities, power, etc.; to make services available to those who would otherwise be without them and, generally, to better the welfare of most Americans by improving both the quantity and the availability of goods and services. With relatively minor exceptions, it has succeeded in these purposes during the past 40 years. However, any influence these policies have had or will have on the distribution and redistribution of income or wealth or the general welfare of citizens is incidental to this purpose.

WELFARE ECONOMICS

Fiscal, monetary, and allocative policies, viewed as a group, constitute activity usually described as "welfare economics." Welfare economics is not primarily concerned with public assistance, it is rather a policy of using public resources and public decision-making to maximize the gross social product that, according to Paul Samuelson, is characteristic of any mixed economy today. But this utilitarian ideal does not require that every citizen be benefited. Thus, as in other uses of government authority, individual welfare may be regarded as open to sacrifice for the benefit of the community.

The goals of welfare economics are primarily those of development and stability. However, government also adopts policies which are redistributive, either incidentally or for other reasons (e.g., political accommodation, social justice). No government would concern itself with the wealth of the community as a whole to the total exclusion of considerations of the welfare of individual citizens or social classes. Government benefits particular classes of citizens in a number of ways.

> Efforts to spur economic growth and to prevent recessions inevitably involve questions of who is to benefit, who is to pay the costs of trying to keep prices from rising rapidly, who is to be disadvantaged by economic changes. The expanding role of government means that presumed notions of market automaticity succumb to political decisions about who gains and loses. These decisions are supposedly made on immutable technical grounds alone. But, with greater sophistication, these decisions are found to be based upon a political struggle among groups and individuals who possess different values and power.[14]

As in other uses of government authority, individual welfare may be regarded as open to sacrifice for the benefit of the community.

Charles Reich found that "the new property" consisted of entitlements growing out of social arrangements and expectations. He observed that, "many of the most important of these entitlements now flow from government: subsidies to farmers and businesses, routes for airlines and channels for television stations, long-term contracts for defense, space, and education; social security pensions for individuals."[15] Billions of dollars—estimates range close to $100 billion a year—go to individuals in "transfer payments"; less than one dollar in eight goes to "welfare recipients." In addition, tax benefits favor particular groups through exempting certain types of income from taxation. A few years ago Philip Stern identified some of the chief tax benefit recipients and the amounts they received.[16]

	Billions
Joint returns	21.0
Capital gains deduction	14.0
Investment tax credit and asset depreciation	6.5
Real estate and mortgage interest payments	5.7
Reduced interest in federal credit programs	5.0
Municipal bonds, depletion allowance, stock options, etc.	2.0
Personal exemptions	2.0

Stern concluded that tax subsidies are "a welfare program that reverses the usual pattern and gives huge welfare payments to the super rich but only pennies to the very poor."

In summary, governmental decisions determine the level of economic activity. They regulate the economy to make industry profitable and therefore expanding or, rarely, vice versa; in doing so, government may divert national resources to industrial enterprises which are less and less "labor intensive" and away from programs that support or benefit individual citizens. Government controls the rate of inflation largely to sustain productivity, but in doing so, changes the relative standing of creditors and debtors. Operating under a Full Employment Act, it influences the rate of employment, never allowing it to go above 97½ percent and sometimes allowing it to go as low as 90 percent (in unofficial but more accurate figures, 95 and 80 respectively). It modifies the tax system to provide benefits and incentives to certain classes, particularly families with two wage earners (joint return), property holders (no tax on capital except at transfer, and then at low rates; deductions for interest payments), the employer (social security tax; business expense deductions), and the wealthy (capital gains, tax exemption for some securities; tax shelters).

STAKE IN CAPITALIST SOCIETY

To reiterate data familiar to this journal's readers but central nevertheless:

- Twenty percent of the people in this country (approximately 40 million) own half its wealth,

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while the public owns one-third and the other 160 million people share the remaining one-sixth.

- The distribution of income (earned and unearned) is far more equal than the distribution of wealth, with the top fifth receiving only about three times as much income as the bottom fifth.
- The "middle class" is clearly visible; the differences in income for the middle three quintiles (60 percent of the population) are not so great as to distinguish them psychologically or socially. They are also much closer to the bottom fifth than to the top fifth.

There is an important caveat to be entered, especially with respect to any inference one might wish to make about the relationship between wealth and income distributions. The two sets of figures—for wealth and for income—are independent of one another. We do not know such factors as what income group the members of the top wealth group belong to. We can safely say that there is heavy overlap, and we can safely say there is not complete identity. Beyond this, we cannot proceed to make inferences with any great assurance. For example, retired persons, ordinarily in a low income group, often have considerable wealth.

It can be safely concluded, however, that the distribution of wealth is stable in this country. The net effect of all influences upon it is to leave it undisturbed. But there are a number of activities which are at least potentially redistributive, and should be understood.

Wealth is redistributed from unit to unit in society; some persons or families increase their wealth, others lose wealth, but the pattern of wealth distribution does not change. This is understandable, since government uses its influence to preserve economic stability as well as further economic development. But government is not the only source of the allocations and reallocations that affect the relative standings of economic units. There are, in fact, four major allocative steps: the gaining of income, the disbursing of public funds, the collection of public funds, and savings.

1. Income. We have already seen that income is much more equally distributed than wealth. The receipt of income earned and unearned is the largest reallocative factor to be taken into account. Over one-third of the private wealth in the country changes hands each year in the form of income transfers. That this reallocation is extensive is seen by the fact that even if, as we know is not the case, the wealth quintiles contained exactly the same persons as the comparable income quintiles—the richest having the most income and the poorest having the lowest incomes—those who own over 75 percent of private wealth would have received only one-third of the income distributed during the year while those holding less than one percent of the wealth would have received 11 percent of the income.

The failure to recognize a right to subsistence stems directly from a refusal to acknowledge the part played by government in creating the conditions of poverty.

Since 90 percent of income is earned, it is clear that earnings tip the wealth distribution toward equality, not away from it. This is worth noting, since many people who oppose any move toward a more equalitarian distribution of wealth claim such a move would decrease the incentive to work. In fact, 40 percent of all those persons who are in the lowest income quintile are in units in which there is a full-time worker.

2. Public Expenditures. The many governments in this country collect almost half as much money each year as is received annually as income (for example in 1968, $312 billion compared to $688 billion). The amount collected (adjusted only by the amount of budget surpluses and deficits accumulated in all jurisdictions) is spent. And these public expenditures may be calculated as either direct payments to individuals (wages and salaries or transfer payments) or as nonmoney benefits to them. Roughly one-third of the expenditures fall in each category—about one-third of public payments are for wages and salaries, one-third are transfer payments, and one-third are payments for goods. If we try to ascribe these benefits to one or another of the income or wealth groupings we have looked at, it is necessary to make inferences. Particularly with respect to nonmoney benefits, such inferences are risky. Do road construction, traffic control, postal service, debt interest, national defense, education, parks and recreation, to name a few of the categories, provide benefits per capita or in the same ratio as income, wealth, consumption, or savings are distributed in the population?[17]

Earlier studies have tended to assume that benefits are distributed generally as is income with exceptions readily granted to programs thought to redistribute money and services to the poor (health and hospitals; public assistance; police, fire and sanitation; natural resources, parks and recreation; housing and urban renewal; veterans; agriculture; education). On the basis of recent studies of the utilization of many of these public services, it is clear that many of them should be removed from such a list of exceptions and instead be apportioned roughly according to the distribution of income. Public assistance would clearly be an exception to such a rule, but other expenditures are more likely to benefit the public roughly according to their income, or even their wealth.

A much greater source of difference in the conclusions to such studies—because it concerns a much larger sum of money—arises in connection with military outlays. This is the largest item of expenditure by government, combined with space research and interest on the public debt (most of it a result of previous mili-

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tary expenditures), it amounts to over one quarter of public expenditures, without taking into account related expenditures hidden elsewhere in the budgets. Benefits from these expenditures appear to be more closely related to wealth than to income. While a sizable proportion of military expenditures is for personnel, the proportion is less than for public expenditures in general. Money spent for materiel tends to go into the pockets of property holders. Further, as noted above, such expenditures depress the economy over the long run, thus hurting those who are most vulnerable to economic adversity.

It may be concluded, therefore, that public expenditures use nearly $100 billion to restore the wealth distribution through military-related expenditures and about $200 billion to maintain the income distribution.

3. Public Income. The reallocative or potentially reallocative portion of public income is that collected as taxes. There have been attempts to calculate how income groups share in tax collections. Again here, estimates are subject to great error. First, very few empirical studies have been made, and so we don't know which individuals pay many of the taxes. Second, even where we can identify the individuals, we do not know in what income group they fall. Third, even more difficult is the attempt to place them in a wealth group, this is particularly hard since wealth is reported only when it is transferred (at death, sale, gift, etc.) and therefore subject to tax. (The United States is the only industrialized nation without a wealth tax.)

On top of this ignorance we must pile the effect of a basic misunderstanding—our acceptance of the April 15th fallacy. Most of us think of federal income taxes when we think of the tax "system," and because it is graduated, we think of taxes in the U.S. as "progressive." In fact, less than a third of all taxes are paid in this form. Even when state income taxes are added to this total, probably more than two-thirds of all taxes are paid in another form. These other taxes are most often regressive, and so it remains to be seen whether the tax system is redistributive.

Previous studies conclude that the total tax system (all jurisdictions) is essentially flat rather than progressive or regressive. The studies made in the 1960s found that approximately 35 percent of income was paid to government in taxes by the middle income fifth. The variation among them in that percentage was not more than two percent. These studies found that the percentage of income paid as taxes by the bottom income fifth after receipt of government transfer payments was slightly lower, usually around 30 percent. The percentage of pretransfer income paid in taxes by this lowest fifth was much higher than that paid by the middle class. At the upper end of the income scale (the top two or three percent) the studies found the percentage of income taken in taxes to rise, but again not radically.

The pattern of wealth distribution does not change since government uses its influence to preserve economic stability as well as further economic development.

These studies were carried out by people who had rather conservative views about shifting tax burdens. For example, they tended to "charge" property and securities holders rather than consumers. This assumption is questionable. The most rapid tax increases in recent years have been in regressive local taxes and the less perfect competition is, the more likely taxes will be shifted to consumers rather than to owners. The better conclusion would appear to be that Americans contribute roughly the same percentage of income to taxes regardless of their income. The tax burden does not redistribute wealth significantly from the income distribution. It does, however, continue the redistribution of wealth toward the income distribution and away from the wealth distribution.

4. Savings. The increase in wealth each year is also large, amounting to about $200 billion. Savings have a profound effect on wealth distribution, for they are found only in high income and wealth groups; there is no net savings by income groups below the national mean income. All savings are found in the top half of American families ranked by income. One study shows that the top 22 percent of the people in the country, ranked by net worth, save about 110 percent of all the money that is saved in any given year. The rest decrease their net worth by that excess 10 percent, about $20 billion.

Wealth is redistributed by the receipt of income, and particularly by the earning of income; by the collection and expenditure of funds by government; and by savings. Income moves the distribution of wealth toward equality, and government activity and savings counterbalance this effect. The result is stability in the pattern of wealth distribution, in spite of constant shifting of individual units from one standing to another in a wealth ranking.

The place of government in maintaining this inequality of wealth is crucial. There is a delicate balance exhibited by our "mixed economy." Private and public forces are in a state of balance so that no significant shift in support or control is possible politically. This stasis has the result that no major shift in the pattern of economic distribution of wealth or income or need satisfaction is possible. While individuals may shift from one "class" (income level, wealth group, work group, etc.) to another, the number of persons in each class and the distribution of wealth, income, or services will not change materially. The government is inescapably involved in operating an economy characterized by inequality, with poverty as an effect of state action. While the government does not operate the economy in order to preserve or create inequalities or in order to prevent people from gaining the

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necessities of life, its actions have this effect.

TOWARD A FUNDAMENTAL RIGHT

Though the contract theory on which it was based held that subsistence is a right that can be claimed from government, the Constitution does not include such a right. All "welfare rights" have been statutorily based, and the courts have construed them narrowly, although granting certain procedural protections to welfare recipients. This has remained true even in a period in which government has assumed the leading role in regulating and controlling the general level of economic activity and has regularly made decisions which affect rates of employment, the value of money, wages and prices, and the prosperity of particular segments of the economy. It decides, in the course of this, how many shall require assistance in order to gain subsistence. Those who lack the necessities of life do so for reasons over which, for the most part, they have no control. They are either incapable of supporting themselves (are too old, incapacitated, ill, etc.) or they are placed in that position by an economic system in which there are strong elements of state action.

For some the concept that there is a right to the necessities of life requires no sophisticated argument; the position is an ethical one, so obvious as to appear intuitive or self-evident. Hobhouse put it this way in 1911: a rational social order does not rest "the essential indispensable condition of the happiness of one man on the unavoidable misery of another, the happiness of forty million men on the misery of one."[18] For such persons the guarantee of life, liberty and property must encompass at least governmental assistance in gaining subsistence. For others, subsistence will be so obviously a necessity that it must be granted as a nonconstitutional right such as has been recognized by the Supreme Court in other matters—occupation,[19] procreation,[20] marital privacy,[21] association,[22] foreign travel,[23] interstate travel,[24] and the vote.[25] On either or both of these grounds, public assistance for those who lack subsistence is a matter of entitlement.

Both arguments, whether humanitarian or constitutional—based on the due process or equal protection clause—conclude that every person is entitled to the necessities of life as a matter of right. The legal argument, supported by the facts presented here, is easily confused with other positions and so several disclaimers should be made:

(a) The position finds nothing wrong with government attempts to control the economy. It is well within state authority to act concertedly to regulate economic affairs. "Welfare economics" seeks to "augment the gross social product where it has been determined [by government] that a change in the use of certain resources will increase that net payoff of goods (however defined or perceived) to society as a whole."[26]

(b) The position takes no stand and makes no assumption about how goods should be distributed within society. It does not propose a more equalitarian economy, nor does it advocate any redistribution at all among those members of society who have achieved the necessities of life. It confines itself to the possible claims of those who are below the subsistence level.

(c) The position requires only an understanding of the general outlines of the economic system which is in operation. Further, it takes no stand with respect to the way in which a right to subsistence might be satisfied. A determination with respect to this would require economic judgments, and these are left to others.

(d) The position requires no debate about the desirability of public assistance, only if welfare is a matter of right. Public assistance is probably acceptable to all, at least as legislation. Even the Supreme Court appears to accept it.

Welfare, by meeting the basic demands of subsistence, can help bring within the reach of the poor the same opportunities that are available to others to participate meaningfully in the life of the community. At the same time, welfare guards against the societal malaise that may flow from a wide-spread sense of unjustified frustration and insecurity. Public assistance, then, is not mere charity, but a means to "promote the general welfare, and secure the Blessings of Liberty to ourselves and our Posterity."[27]

The Court, in making this statement, referred to Charles Reich's famous statement on entitlement. Reich had written, "Today we see poverty as the consequence of large impersonal forces in a complex industrial society."[28] From this he had drawn the conclusion that "the idea of entitlement is simply that when individuals have insufficient resources to live under conditions of health and decency, society has obligations to provide support, and the individual is entitled to that support as of right."[29] This conclusion is more readily accepted when one looks at the "large impersonal forces" and finds that they are in large part a result of governmental decisions, taken for the general welfare and depriving some individuals of the necessities of life.

Both the courts and the general public have failed to recognize a right to subsistence. This failure of perception stems directly from a refusal to acknowledge the part played by government in creating the conditions of poverty. The Court's position was perhaps most explicitly stated in *Dandridge v. Williams*: "Here we deal with state regulation in the social and economic field, not affecting freedoms guaranteed by the Bill of Rights."[30] In this case it found no right in matters involving, in its words, "the most basic economic needs of impoverished human beings."[31] As one analyst of the welfare cases has pointed out with respect to the substantive due process decisions of the 1920s, "The very reason that the Court 'went wrong' in the past was its steadfast adherence to precon-

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ceived and factually incorrect notions of economic reality.''[31] In recent welfare cases, too, the Court has acted out of an outdated theory of economic causation and erroneous inferences about why the poor are poor.

Forty percent of those below the subsistence level in the United States are in families in which there is a full-time worker. They are not poor because they are shiftless. Studies of welfare recipients who are unemployed have repeatedly shown that less than four percent are employable. The poor are not in that condition because they lack incentive, although they may lack incentive because of the situation in which they find themselves. Even those who decry assistance because it would reduce incentive have no solid basis for arguing that assistance payments would harm the general public. The Webbs describe the principle of ''less benefit'' as an underlying principle of the English Poor Laws,[33] namely that the economic condition of the able-bodied welfare recipient ''shall not be made really or apparently so eligible [desirable] as the situation of the independent laborer of the lowest class.'' Again, all research shows that any person capable of working will seek work in preference to receiving welfare.

For almost 100 years, rights not specified in the Constitution have been accepted by the courts and termed ''fundamental rights.'' This concept originated in *Yick Wo v. Hopkins*, where voting (by dictum) and the opportunity to pursue one's occupation were accorded fundamental status. A fundamental right is one, according to the Court, which is ''preservative of all rights.''[34] The Court wrote:

> The very idea that one man may be compelled to hold his life, or the means of living, or any material right essential to the enjoyment of life, at the mere will of another, seems to be intolerable in any country where freedom prevails, as being the essence of slavery itself.[35]

The idea of a right to subsistence, ''the means of living,'' in the Court's terms, is then, a fundamental right. For government to participate actively, and perhaps dominantly, in an economy which requires or consents in poverty for some of its citizens constitutes a ''taking'' or publicly inflicted private injury for which compensation would ordinarily be required.[36] The government's determinative influence in the economy means that it bears responsibility for the consequent poverty level of numerous Americans, and is guilty of violating their civil liberties.

NOTES

1 S.M. Miller and P. Roby, *The Future of Inequality*, p. 211

2 *Palmer v. Mulligan*, 3 Cai. R. 307 (N.Y. Sup. Ct. (1805)) p. 314.

3 *Lochner v. N.Y.*, 198 U.S. (1905) p. 45, pp. 60-61.

4 *Ritchie v. Ill.*, 155 Ill. 98, 40 N.E. (1895), p. 494.

5 Walter Gellhorn, "Poverty and Legality: The Law's Slow Awakening," *William and Mary Law Review*, Vol. 9 (1967), p. 285

6 A.D. Smith, "Public Assistance As a Social Obligation," *Harvard Law Review*, Vol. 63 (1949), pp. 266-270.

7 *Ibid.*, p. 269

8 Gellhorn, *Op. cit.*

9 R.L. Heilbroner, *Understanding Macroeconomics*, p. 114

10 Samuelson, *Economics* (7th ed.), p. 144

11 *Ibid.*

12 Bruce Russett, "The Price of War," *The War Economy in the United States*, edited by Melman, p. 156

13 Heilbroner, *Op. cit.*, pp. 110-111

14 Miller and Roby, *Op. cit.*, pp. 143

15 Charles Reich, "Individual Rights and Social Welfare: The Emerging Legal Issues," *Yale Law Journal*, Vol. 74 (1965), p. 1256

16 Philip Stern, *The Rape of the Taxpayer*

17 *Tax Burdens and Benefits of Government Expenditures by Income Class* (Tax Foundation, 1961 & 1965)

18 Hobhouse, *Liberalism*, p. 41

19 *Yick Wo v. Hopkins*, 118 U.S. (1886), p. 369.

20 *Skinner v. Okla.*, 316 U.S. (1942), p. 535.

21 *Griswold v. Conn.*, 381 U.S. (1965), p. 479

22 *NAACP v. Ala.*, 360 U.S. (1959) p. 240

23 *Aptheker v. Sec. of State*, 378 U.S. (1964), p. 500

24 *Shapiro v. Thompson*, 394 U.S. (1969), p. 618

25 *Carrington v. Rash*, 380 U.S. (1965), p. 89

26 Frank I. Michelman, "Property, Utility, and Fairness: Comments on the Ethical Foundations of 'Just Compensation' Law," *Harvard Law Review*, Vol. 80 (1967), p. 1173

27 Justice Brennan, writing for the Court, in *Goldberg v. Kelly*, 397 U.S. (1969), p. 254, 265.

28 Reich, *Op. cit.*, p. 1255

29 *Ibid.*, p. 1256

30 *Dandridge v. Williams*, 397 U.S. (1970), p. 471.

31 *Ibid.*, p. 485.

32 Robert J. Reinstein, "The Welfare Cases: Fundamental Rights, The Poor, and the Burden of Proof in Constitutional Litigation," *Temple Law Quarterly*, Vol. 44 (1970), p. 48.

33 Beatrice and Sidney Webb, *English Poor Law History*, Vol. I, p. 58

34 *Yick Wo v. Hopkins*, 118 U.S. (1886), p. 370

35 *Ibid.*

36 Michelman, *Op. cit.*

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RIGHTS TO INCOME SUPPORT AS AN ISSUE IN WELFARE REFORM

(by Paul Vernier)

The rights of those who need or depend upon welfare benefits have been the subject of intense interest among social philosophers in recent years. It is also a subject of substantial importance in any consideration of conceptual and moral issues in welfare policy today.

Philosophic discussions of welfare rights, generally speaking, are more concerned with questions of broad moral principle than with concrete policy issues in the field of welfare *per se*. This is no criticism of social philosophy, of course, since elucidation of the principles of social morality is what one needs and wants from social philosophers.

At the same time, there are urgent policy questions for welfare planners and decision makers that bear on the subject of rights as discussed by philosophers, jurists, and political scientists. A general lack of connection between welfare policy planning and scholarly discussion of rights has served, I believe, to limit the potential contribution of scholars to policy formulation to the general detriment of welfare programs.

My purpose in this paper is to try to draw together the subject matter of these two fields in such a way that the work being done by rights theorists might have a more direct impact on policy considerations than has so far been the case.

To that end, my discussion will be largely expository, and I will not be arguing for or against any particular moral or political theses. I want to show, in a general way, how the question of rights is linked with welfare policy, and why it is an important subject for decision makers in this field.

I will begin by offering a brief characterization of the concept of a right in general, and of the particular features of a right to income support. Next, I will offer a short historical background concerning rights and welfare policy, to be followed by a more intensive examination of the ways in which welfare rights are most likely to influence and condition welfare policy decisions.

I

We live in an age in which questions about people's rights rise quickly out of the welter of public issues to receive public attention. What is it, however, to have a right to something? What is meant when the rights of some group, such as racial minorities and women, are invoked? Social philosophers, jurists, and political scientists have written at length on the answers to these questions, and several basic conceptions appear to be generally agreed upon in what has been written.[1] I shall make use of them in the characterization of rights with which my discussion begins.

The assertion that a person has a right to something embodies three distinct, but closely related ideas. First, to have a right is to have a claim of a special kind to possess, or do, or be something. The claim is one of entitlement to the object of the right without having to secure the permission or consent of anyone else. Second, having a right to something implies, in most instances, a corresponding obligation or duty upon some other person, group, or institution. The object of a right cannot arbitrarily be withheld or denied to the right-holder by those upon whom such a duty is imposed. Third, both a right and its correlated duty are sanctioned by a governing set of rules or principles which are binding on those involved.[2]

To invoke an individual's rights, therefore, is to make the following claim: that he or she is entitled to possess or enjoy something (e.g., choice of religious worship) in accordance with some set of valid rules or principles, and that some organization or other individual is obligated under the same rules to satisfy that entitlement. If there is a right to welfare, therefore, some set of individuals is entitled to the benefits of welfare, yet to be described, as a claim against others, in accordance with some set of valid rules.

These governing rules may belong either to the realm of law or to that of moral principle. Sometimes they fall in both realms. For example, the Declaration of Independence calls for liberty as a moral right, and the Bill of Rights of the U.S. Constitution guarantees us certain specific liberties, such as freedom of speech.

While this distinction is generally familiar to professional groups such as lawyers, philosophers, and political scientists, it may not be as well known to the wider public engaged in the debate about welfare reform. It is of central importance in this debate, however, because certain welfare rights are already contained in law, while others are claimable solely on grounds of moral principle. Unless the distinction is kept clearly in mind, and we know which of the rights under discussion are legally sanctioned and which are not, our debates on this subject will not be well informed.

Another distinction, this one concerned with whether a right is to non-interference in one's activities as against a right to receive something, also needs to be kept in mind. It is important because traditionally we have been concerned mainly with rights to non-interference, such as those guaranteed in the Bill of Rights of the U.S. Constitution. Articulation of rights to receive something, for example, a minimum standard of living, educational opportunities, and medical care, is a more recent development. For this reason, the notion that there are rights to welfare is not as familiar as the notion of forbearance rights.[3]

Rights are seldom absolutely enforceable in every situation. In specific circumstances, they can often legitimately be overridden. In Oliver Wendell Holmes' famous example, the right of free speech does not extend to shouting "fire" in a crowded theater. If there is a moral right to income support, there are clearly circumstances in which it cannot be honored. For example, in time of famine, there may be no resources for responding to need. From the viewpoint of welfare policy, the recognition of a welfare right thus entails the further question of the circumstances in which it can be validly overridden.[4]

There is a great deal more that one might say about the nature and scope of rights.[5] However, for purposes of an introduction to the subject of welfare rights, the points I have made seem to be the important ones. To summarize briefly, a distinction needs to be made between moral rights and legal rights in considering rights to welfare. A further distinction between forbearance rights, like the right to privacy, and positive social and economic rights, is likewise important. And finally, the question of circumstances in which rights can be legitimately overridden must be taken account of. I turn now to a brief characterization of welfare rights, and specifically of rights to income support.

What is meant by a right to income support? Based on the preceding discussion of rights in general, I want to offer a particular construal which links the notion of such a right directly to practical policy issues concerning eligibility for aid and levels of payment to be provided by an income support program. According to this construal, a right to income support is the right to the economic resources needed to bridge any existing gap between an individual's own resources and those required to achieve some agreed-upon standard content of living. The central concept here is that of a deficit between standardized need and an individual's resources. If there is a right to income support, it is the right to exist at some level or standard of living. Those who have the correlative duty are obligated to supply what is needed to ~~fill~~ the gap between that level and any individual's own resources. Presumably, everyone has such a right, but it actually accrues for any individual only when his income falls below the established level.

The crucial factor in determining income support rights, if this construal is accepted, is the standard to be used in determining when someone's right accrues, and what his benefits should be. Such a standard can vary from one of meagre survival to a much higher level of well-being and opportunity for realization of individual potentialities. In Section III I will examine this range of possibilities in some detail.

Understood in this way, it should be noted, a right to income support is equivalent to a right to a minimum standard of living or income "floor" for everyone, fixed at whatever standard is decided upon. This follows from the circumstance that the right to income support would accrue for an individual only when his or her resources fall below the level of expenditure which has been set. The amount of the entitlement would be the amount required to enable each individual to enjoy the established standard.

Although this account concerns only income support, the same formula can be extended, I think, with suitable modifications, to other welfare services, such as medical care and day care for children. There are, of course, other ways of defining a welfare benefit right, such that income testing is not the crucial factor. For example, the family allowance system, which is not based on need, might also be used to generate a definition of a welfare right. One advantage of my definition is that it fits current welfare reform proposals, which are income-tested in basic structure.

II

Before going further into the content of a right to income support, let us look for a moment at the historical record on this subject. To what extent and in what ways has the rights issue in welfare been a subject of debate and legislative enactment in earlier periods? Is it a long-time issue, or one of recent emergence? And how far has the concept of a welfare right been implemented in our welfare programs up to now?

According to a well-informed writer on this subject, A.D. Smith, writing in the Harvard Law Review in 1949, "historically and traditionally . . . there was no legal right to public assistance."[6] A major obstacle to its legal recognition, he says, was the firm conviction of many people that the claim to subsistence is "a claim to what can only be a gratuity." Aid to those in need, according to this view, can never escape its origin as a "charitable benefaction." Changes in the economy of the nation in the last century, according to Smith, led to the possibility of a different view about the relation of individuals and the economic mechanisms of society than the highly individualistic one of earlier times. The newer outlook made possible the passage in 1935 of the Social Security Act, with its emphasis on providing economic security through social insurance. Part of the Social Security Act was the enactment of public assistance for special groups of needy people -- dependent children, aged, and blind.

A major purpose of the Act, and hence of the public assistant titles of the act, according to Smith, was to "give enforceable legal rights of participation." These rights were brought into existence by requiring an opportunity for a fair hearing for dissatisfied applicants and recipients. How far did this take us along the road to the establishment of legal rights to income support? Those special groups who qualify under these programs do have legal entitlements to assistance, as Smith holds. This was confirmed in an opinion of the Supreme Court in Goldberg v. Kelly in 1970: "Such benefits [i.e. AFDC] are a matter of statutory entitlement for persons qualified to receive them."[7] The courts have also, in recent years, articulated certain rights of welfare recipients to due process and equal protection under the law, as illustrated by the ruling in Goldberg v. Kelly that recipients whose assistance is being stopped and who have appealed are to remain on the rolls pending the hearing decision.[8]

These are all steps in a cumulative recognition of rights of welfare recipients, but they do not add up to a general right to benefits for those unable to support themselves. In the first place, these programs are based upon statutes that can be amended or discontinued by legislative act. Moreover, persons eligible for the programs that provide entitlements are a limited class of these who are poor (i.e., families with dependent children, the aged, blind and disabled).

A related set of developments since the passage of the Social Security Act are also of some interest and importance in the field of welfare rights. These are expressions of policy and opinion outside the legislative and judicial context. First, President Roosevelt's famous declaration during World War II of the "Four Freedoms" included the right to freedom from want. Next, the Universal Declaration of Human Rights of the United Nations was adopted in 1948 and includes the right to a minimum standard of living. Even though this is an international declaration which the United States has not ratified, it has frequently been cited by writers on welfare rights (e.g., by Wayne Vasey in a paper entitled "Social Welfare as a Human Right"9). A few years ago, the national association of welfare recipients adopted as its name, the "National Welfare Rights Organization." And recently, Secretary of State Cyrus Vance stated as United States policy that "There is the right to the fulfillment of such vital needs as food, shelter, health care, and education."10

These instances do not, it is true, add up to a major groundswell. Yet it is fair to say that they reflect something more than a random, unrelated set of occurrences. They express a point of view about rights of the poor which would not have been found prior to the 1930's.

III

The issue of rights to income support, as we have already observed, is closely connected with the designation as a matter of policy of some standard or level to which entitlement applies. This is true whether we are speaking of moral or legal rights. In the discussion of this subject which follows, the close link that exists between abstract questions of rights and programmatic requirements of policy determination comes clearly to view.

It makes a great deal of difference whether we are talking about rights to a level of bare survival or to a level which permits a mode of life exceeding survival. This relativitization to some specific level of existence is required for two reasons. First, it is only by such means that we are able to identify the content of what a person may have a right to. Second, the grounds for asserting moral rights to welfare are not the same for different levels. For example, one possible argument for rights at the level of survival is that such rights are part of what we mean by the right to life. That is to say, if there is a right to life, as the Declaration of Independence asserts, one possible argument for support at the survival level is that such support is part of what we mean by the right to life because it may be required for remaining alive. However, if the asserted right is to some level of existence beyond mere survival, the argument from the right to life is no longer sufficient taken by itself. Other arguments will be needed, e.g., that everyone ought to have equal access to what he needs to successfully pursue his life interests, including a reasonably adequate level of economic goods. Moreover, the arguments for rights at one level of benefits might be significantly mor persuasive than those for another. It is also possible at rights might be strongly justified at one level, at that there are other powerful motivations, such as achievement of certain social ideals, for providing support, without reference to rights, at some higher level.[11]

Standards of living relevant to income support policies can be viewed as constituting a continuum along a dimension extending from the barest level of survival upward. Points along the continuum, however, must be selected in order to focus discussion. A number of possibilities are presented. For example, Benn and Peters, in The Principles of Political Thought,[12] offer a three-fold set of levels as follows: (1) the biological level, which defines the requirements for simple survival; (2) the level of basic needs, which are those that must be satisfied for enjoying what the authors call a "decent sort of life" at any particular time and place; and (3) the level of functional needs, defined by those requirements which a person must satisfy as a condition of performing his or her particular job or task in the community. A virtue of this classification is that it gives us a hold on some important stages along the continuum of individual and family needs. I shall offer a somewhat different, two-level classification, however, partly because it appears to be more directly relevant to welfare policy considerations, and also because the kinds of arguments that can be made in support of welfare rights may, I think, relate somewhat more directly to these levels than to others. The two levels or standards are (1) a level of subsistence, which differs in an important way from Benn and Peters' biological level; and (2) a level of minimal well-being. Both levels are broadly characterized in the discussion that follows.

(1) The Level of Subsistence. Subsistence, as I shall understand it, is a level of minimum economic security which encompasses the elements of biological survival, but goes beyond them. This level of subsistence, taken from an analysis of subsistence needs by Henry Shue,[13] provides the economic means to live a healthy and active life of more or less normal duration. This level exceeds that of bare biological needs in specifying certain positive conditions of health and activity as well as introducing a durational component. Survival, as a concept of living, implies more a day to day meeting of primitive needs without explicit consideration of one's state of health or longevity.

At the same time, the concept of subsistence or minimal economic security clearly does not extend to a standard that is comparable to Benn and Peters' "decent sort of life." That level not only enables an individual to subsist, but to live in a certain manner, i.e., one that is considered minimally acceptable within the community of one's abode. The notion of subsistence, while going substantially beyond survival in a biological sense, is nevertheless not to be identified with any particular manner of life. Subsistence needs would be met, for instance, by one's having warm clothing and shelter in winter even though they may be quite different from one's neighbor's clothing and shelter, and of a less desirable character by accepted community standards.

(2) The Level of Minimal Well-Being. Achievement of the level of subsistence just described is a necessary condition for the continuation of life in any sense but that of mere survival. It is by no means sufficient, however, for the l vel I shall call "minimal well-being." Achievement of this level requires not only economic security on the subsistence level, but also a set of opportunities for living in a more comprehensive sense. Three such opportunities are essential to this conception of well-being. One is that of being able to have what Benn and Peters call a "decent sort of life", that is, of living in accordance with what is minimally acceptable in one's community so that one is not looked upon as different or outside the established patterns of community life. Second, at this level an individual can participate in the general range of ordinary

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community activities such as church-going, modest entertaining of one's friends, and taking part in political and community affairs. Third, one can achieve a sense of one's value as a human being, and enjoy some confidence in the ability to plan one's life and fulfill these plans.[14] A life which meets these specifications would, I suggest, be regarded by most Americans as meeting a test of minimal adequacy. More important a life which did not provide such opportunities would be considered seriously deficient.

It would perhaps be more accurate to designate this level as one of opportunity to achieve minimal well-being, since the actual achievement would depend on a complex set of factors which extend beyond economic and educational resources to their utilization by each individual. The level of economic support which is linked with minimal well-being, as I have characterized it, is an enabling instrumentality, rather than constitutive of that condition in its full sense.

The characterization I have offered here is extremely general, and requires further elaboration in several directions. For example, circumstances under which well-being in this sense can be achieved differ markedly for different groups of people. Children and the elderly have clearly diverse prospects in life, and the kinds of opportunities needed by children as they are growing up are not those of their grandparents. Other distinctions apply to breadwinners in contrast with family members who are not in the job market. Despite its generality, however, and taking account of the need to relativize it to different groups of individuals, the central notions of minimal well-being as a level of existence, as I have described it, can be grasped from this delineation.

What level of resources is needed for the achievement of minimal well-being? Stated in terms of an income support program, what would have to be provided to an individual who lacks resources of his or her own? A specification of the needed goods and services is far beyond the scope of this paper. In general, however, it seems clear that food, shelter and clothing within standards accepted by one's community ar needed. The ability to utilize educational and health resources, insofar as they are available generally, and the requirements for holding employment (e.g., work clothing, transportation) are further necessities. This listing is only illustrative. A full listing would add further similar items.

If there is a right to income support at the level of minimal well-being, as I have described it, such a right is to the goods and services noted above.

The Official Poverty Line. In 1969, the federal government adopted an "official" poverty line or threshold as a measure of economic insufficiency.15 In the past decade, this poverty threshold expressed in dollar amounts has been in general use as a base for establishing levels of income support in proposed welfare programs. For example, the payment level in a given proposal may be computed at 75% of the poverty threshold.

Because this quantified measure of economic need plays such an important role in contemporary policy formulation, we should take time to look into its relation to the various living standards I have been discussing in conceptual terms. One point of interest comes to light at once: Although the poverty line is expressed in dollar figures based on empirical research into what people are thought to need for food and other requirements for living, its use in policy formulation is normative and reflects moral judgments regarding the level of existence which a support program should sustain. When we have located the poverty line, as well as we can, at a point along our continuum of living standards, we shall observe that it designates a conceptual standard which calls for moral justification as the standard selected for purposes of setting payment levels. From the viewpoint of rights to income support, the poverty line either implies a description of what people have a right to, or else it is not to be construed as descriptive of such rights. If the former, it requires moral argument to justify its selection. If the latter, its selection conflicts with people's rights, if there are such rights.

The concepts and premises that lie behind the poverty line computation are complex and, in some respects, highly controversial. We need not enter into these difficulties here, however, since our interest is only in the question of where the official poverty line falls along the continuum of possible standards of living.

The primary component of the official poverty line is the economy food diet issued by the Department of Agriculture. This is described as minimally adequate for nutrition, although not for long-time use. The first step in the computation is to price this diet for families of differing composition. The second step is to use this dollar cost for food as the basis for computing the total cost of all items of living expenses. This is done by multiplying food costs by a certain factor (for a family of 3 or more, the factor is 3). This formula is based on empirical studies of actual expenditure patterns of American families concerning the proportion of expenditures for living expenses that goes for the purchase of good. The poverty line is the dollar figure obtained by carrying out this computation.

Because the method of computing non-food costs gives no clue as to what can be purchased, we cannot place the poverty line on our standard of living continuum with too much precision. However, the use of a minimally adequate diet as the basic component gives us some grounds for the view that it should be considered roughly comparable to the level of subsistence which I described above. There seems no reason to place it higher on the continuum, and possibly it should be placed somewhat lower, because the Department of Agriculture has recommended it for only temporary use.

IV

What can be said, now, about the impact of the rights issue on the actual formulation of income support policy? First, I think it is clear that in setting policy, the central issue is that of moral rights to income support rather than legal rights. Whatever legal rights are secured for recipients in law, they are the outcome of political decisions already made, and their implementation is a technical problem. From the policy planning viewpoint, therefore, the important concern is with moral rights. Moral rights, in the context of legislative planning, are expressions of what ought to be the case in law. They are moral directives to legislators. If moral rights are recognized and accepted as valid, it follows that one responsibility of decision makers is to identify the nature of these rights and the conditions under which they accrue. Based on this identification, decision makers would then seem to have an obligation to make policy decisions that reflect these results. If these rights are denied validity, on the other hand, another set of motivations for providing income support would be determining.

Even if the validity of moral rights to income support were accepted by policymakers, of course, there are other motivations which are present and will play an important role. The difference made by non-recognition of the validity of moral rights is that in this case, the other motivations would stand alone. The role of rights in policy formulation is not to displace these other motivations entirely, but to serve as one important factor in the process.

Let us look for a moment at some of these other motivations to the provision of income support. We cannot discuss them in any detail in the present setting, but several may be identified. Humanitarian concern for these in need is one motivation. A second is the desire to provide greater equality of opportunity. Another is concern for the well-being of the community at large. That is, poverty, with its associated crime and ill health, is seen as a pathological condition affecting the entire community and therefore needing to be controlled. A fourth motive is desire for social stability and security from possible social disruptions.

Whatever motivations are operative in policy formulation, they will each have some effects on program policies. If one of these motives is an acceptance of some set of moral welfare rights, then policies will, to this extent, reflect the views of policymakers regarding the substance of these rights, who has them, and the conditions under which they would become effective. These views about rights will not be the only motivating factors at work, but they should give important direction to the kinds and levels of benefits provided, the groups of individuals who are to be eligible, and the limitations to be imposed on eligibility. For these reasons, the question of whether there are rights needs to have attention in this project on moral issues in welfare reform.

V

To conclude this survey of the nature and ramifications of welfare rights in the field of income support policy, I want to raise four questions which require consideration in deciding whether or not there are moral rights to income support, and to whom they apply. First, how can it be shown that there are moral rights to income support? We can verify the existence of legal rights by consulting the actual laws of a society. We cannot, however, find a similar empirical basis for showing that there are moral rights unless we resort to polling public opinion. Except for ethical relativists, however, philosophers have not found this kind of test persuasive. Another approach to showing that we have such rights is that of John Locke and other natural law theorists, who attempted to find the ground for moral rights in purported laws of nature; but this line of justification has not proved convincing. One task of the advocate of moral rights, therefore, is to formulate persuasive arguments to justify them. This is a task to which social philosophers in recent years have devoted considerable time and effort.

The second question concerns the identification of the persons or organizations having the duty or obligation correlative to a moral right to income support. A necessary condition for the ascription of a right to someone is that we can point to someone else who has the correlative duty. In the absence of an agent so obligated, ascription of the right is empty. It is not easy to identify the holder of the obligation that is correlated with a moral right to income support. If no government authority now has legal responsibility for providing assistance to some class of needy people, who is obligated? Professor Brandt has asserted that if an individual is in dire need, and we are the only one in a position to help, then we have a moral obligation to do so. But in a larger sense, as Brandt also recognizes, we are not each individually responsible for helping everyone who is in need, even though we may have a duty to help some individuals. Where, then, does the obligation rest?[17]

Third, there are potentially serious problems of resource allocation to be met. If there is a right to income support at some accepted living standard, the simple obligation is to provide the funds needed to finance a program which meets all such needs of those whose resources fall below the minimum level. In times of affluence, this may not be a source of problems, but when resources are limited in respect to demands for services which may have comparable priority (e.g., education, police protection), difficult moral issues of allocation are raised. The proponent of welfare rights must have answers to these challenges as a part of a comprehensive and persuasive account of such rights.

Fourth and last of the questions requiring consideration if moral rights to income support are claimed is that of defining the obligations of the right-holders themselves. A frequent response to the assertion of a right to income support is to say that what is really important is the obligation of the needy individual to take care of his or her own needs. It is the general wisdom that an individual should work to support himself or herself if able and there is a job. If someone simply wants to live a life of leisure, or finds work distasteful, would he or she have any assertable right to support? I take it, from the viewpoint of formulating policy, that the problem is not whether recipients of support have responsibilities as well as putative rights, but what these responsibilities are. The responsibilities can, in theory, range from almost nothing at all to requirements that are recognizably extreme, like requiring a mother of several children to submit to sterilization as a condition of eligibility. There are serious moral issues to be faced in determining what these conditions should be and the advocate of income support rights must provide some answer to them as part of the characterization of the right.

These are all difficult questions, but they are not, I believe, unanswerable. One task for social philosophers is to identify and consider the possible answers to these and questions like them across the spectrum of moral issues in welfare policy.

NOTES

1 See Joel Feinberg, Social Philosophy (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1973) Chapters 4 and 6, for a comprehensive discussion of characteristics and types of rights.

2 "To have a right is to have a claim against someone whose recognition as valid is called for by some set of governing rules or moral principles." Joel Feinberg, "The Nature and Importance of Rights," Journal of Value Inquiry, Winter, 1970.

3 Although this distinction is important to a clear understanding of the issues under debate, it also needs to be kept in mind that positive government action is equally required to ensure the enjoyment of both kinds of rights. This point has been forcefully argued by Henry Shue in "Foundations for a Balanced U.S. Policy on Human Rights: The Significance of Subsistence Rights," a working paper issued by the Center for Philosophy and Public Policy, University of Maryland, November 14, 1977.

4 Rights that can be set aside in certain circumstances have been characterized by some philosophers as "prima facie" rights. Gregory Vlastos has adopted this characterization in "Justice and Equality," Social Justice, ed. Richard B. Brandt (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1962). A.I. Melden, however, rejects this account, holding that it incorrectly undermines the authoritative status of a warranted right /Cf. Rights and Persons (Berkeley: University of California Press, 1977)/.

5 In addition to the volumes already cited which deal with rights by Feinberg, Brandt, and Melden, see also A.I. Melden, ed., Human Rights (Belmont, CA: Wadsworth Publishing Co., 1970).

6 A.D. Smith, "Public Assistance as a Social Obligation," Harvard Law Review, V. 63, 1949.

7 Goldberg v. Kelly, 397 U.S. 254 (1970).

8 Other Supreme Court decisions which have reinforced the rights of welfare recipients to equal protection and due process include King v. Smith, 392 U.S. 309 (1968); Shapiro v. Thompson, 394 U.S. 618 (1967); Weaver v. Doe, 404 U.S. 987 (1971); and Wheeler v. Montgomery, 397 U.S. 280 (1970).

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9 Wayne Vasey, "Social Welfare as a Human Right," Social Values, ed. Katherine A. Kendall (New York: Council on Social Work Education, 1970).

10 Cyrus R. Vance, "Human Rights Policy," (Washington: Office of Media Services, Bureau of Public Affairs, Department of State, April 30, 1977).

11 Recognition of this need to formulate distinct arguments in support of welfare rights at different levels of economic and social adequacy is to be found in contemporary social philosophy. As examples, see Frederick Rosen, "Basic Needs and Justice," Mind, January 1977; S.I. Benn and R.S. Peters, The Principles of Political Thought (New York: The Free Press, 1965) Chapter 6; Hugo Bedau, "The Right to Life," The Monist, October 1968; and Henry Shue, loc. cit.

12 S.I. Benn and R.S. Peters, The Principles of Political Thought (New York: The Free Press, 1965) Chapter 6.

13 According to Shue's account, subsistence is equivalent to "minimal economic security," by which he means, "healthy air, healthy water, adequate food, adequate clothing, and adequate shelter." The basic idea, he says, is to have "available for consumption what is needed for a decent chance at a reasonably healthy and active life of more or less normal length...." Henry Shue, loc. cit., p. 9-10.

14 In a Theory of Justice (Cambridge, MA: Harvard University Press, 1971), John Rawls identifies these conditions as necessary for achievement of what he terms "self-respect." (see p. 440.)

15 See Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile," Social Security Bulletin, v. 28 (1965).

16 See Frank I. Michelman, "In Pursuit of Constitutional Welfare Rights: One View of Rawls' Theory of Justice," University of Pennsylvania Law Review, May 1973, for a comprehensive consideration of the question of whether there are constitutional rights to income support.

NOTES - Continued

17 Richard B. Brandt, Ethical Theory (Englewood Cliffs: Prentice-Hall, Inc., 1959), p. 439. One possible answer to the question of who is obligated to respond to welfare needs is the following: Although we cannot individually be held responsible, except in very special circumstances, we are jointly members of a society which has certain public and private institutions in which we participate. Our obligations, on this view, are to be met through these institutions, (e.g., the public welfare departments of government).

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WEALTH AND POVERTY

George Gilder

The Coming Welfare Boom

FOR MANY YEARS defenders of welfare have acknowledged that the system was harsh on intact poor families. The answer, it was widely agreed, was to extend benefits to families with unemployed fathers. This was done in twenty-six states and, to the surprise of some observers, had no effect on the rate at which poor families broke down. The reason was clear. As under the guaranteed-income plans tested in Denver and Seattle, the marriages dissolve not because the rules dictate it, but because the benefit levels destroy the father's key role and authority. He can no longer feel manly in his own home. At first he may try to maintain his power by the use of muscle and bluster. But to exert force against a woman is a confession of weakness. Soon after, he turns to the street for his male affirmations.[1]

These facts of life have eluded nearly all the sociologists who have studied the statistics of the welfare family. The studies focus on poverty and unemployment as the prime factors in family breakdown because the scholars fail to comprehend that to a great extent poverty and unemployment, and even the largely psychological conditions of "unemployability" are chiefly reflections of family deterioration. In any multiple-regression analysis, these economic factors will loom largest as causes of family breakdown because they contain and reflect all the other less measurable factors, such as male confidence and authority, which determine sexual potency, respect from the wife and children, and motivation to face the tedium and frustration of daily labor. Nothing is so destructive to all these male values as the growing, imperious recognition that when all is said and done his wife and children can do better without him. The man has the gradually sinking feeling that his role as provider, the definitive male activity from the primal days of the hunt through the industrial revolution and on into modern life, has been largely seized from him; he has been cuckolded by the compassionate state.

His response to this reality is that very combination of resignation and rage, escapism and violence, short horizons and promiscuous sexuality that characterizes everywhere the life of the poor. But in this instance, the pattern is often not so much a necessary reflection of economic conditions as an arbitrary imposition of policy—a policy that by depriving poor families of strong fathers both dooms them to poverty and damages the economic prospects of the children.

In the welfare culture money becomes not something earned by men through hard work, but a right conferred on women by the state. Protest and complaint replace diligence and discipline as the sources of pay. Boys grow up seeking support from women, while they find manhood in the macho circles of the street and the bar or in the irresponsible fathering of random progeny.

The crackdown type of welfare reform attempts to pursue and prosecute these fathers and force them to support their children. But few of these fathers have permanent jobs that they value enough to keep in the face of effective garnishment. Those who do have significant incomes often give money voluntarily to the mothers of their children. But these funds are rarely reported. The effect of child support prosecutions in such cases is usually to reduce the amount of money going to the children by effectively diminishing the welfare allotment and to transform the father's payments from a morally affirmative choice into an embittering legal requirement. He tries to escape this situation as soon as he can. Attempts to force people to work and support their children—when it is clearly against their financial interests and their children's—will always fail.

In the cases of the so-called "love children," born of barely postadolescent fathers or of others passing by, the child-support litigations are equally futile, for the children are really the offspring of the welfare culture of Aid for Families with Dependent Children (AFDC or ADC). In a free society a man cannot long be made to work to pay for children whom he rarely sees, kept by a woman who is living with someone else. Work is not a matter of mere routine but of motivation, X-efficiency as it has been called. The fathers arraigned for child support in the welfare culture typically make a few desultory payments and then leave their jobs or leave town. Some of them enter the world of part-time work for cash, or the more perilous but manifestly manly world of crime. Others eventually get new jobs in the often reliable hope that the computers will not catch up with them again. But the general effect is to add to the perils of employment and marriage.

Work requirements are particularly futile because they focus on women with small children, the official welfare clients, rather than on the unlisted beneficiaries—the men who subsist on the system without joining it, who live off welfare mothers without marrying them. These men are not necessarily fathers of the particular children they happen to be living among. They are just men who live for a while with a welfare mother, before moving on to another one. These men are the key beneficiaries—and victims—of the system. Because the system exists, they are not forced to marry or remain married or learn the disciplines of upward mobility.

There are hundreds of thousands of these men. Their legion is the inevitable counterpart of the mass of welfare mothers who preoccupy all the social workers and reformers. Yet the mothers in general cannot lift their families out of poverty, nor can the social workers. Making the mothers work confers few social benefits of any sort and contributes almost nothing to the fight against poverty. Only the men can usually fight poverty by working, and all the antipoverty programs—to the extent they make the mother's situation better—tend to make the father's situation worse; they tend to reduce his redemptive need to pursue the longer horizons of career.

These unlisted welfare men form a group almost completely distinct from the "able-bodied men" actually listed on the rolls—aging winos, over-the-hill street males, wearied ex-convicts, all the halt-and-lame founderers of the world—who receive money under the general assistance category and are harassed mercilessly during every crackdown. The real able-bodied welfare fathers are almost universally contemptuous of welfare and wouldn't go near a welfare office. In county jails across the land, these men disdain all transitional programs designed to give them aid after release while they get back on their feet. Welfare-based employment programs, like those envisaged in many reform proposals, will tend to miss all the youth on whom the future of poor communities will finally depend.

Even the antifraud efforts, necessary as they are, can have unfortunate results in the context of the welfare culture. The usual way to combat welfare fraud is to compare the welfare rolls—including all listed husbands and fathers—with lists of the holders of jobs, savings accounts, homes, and other assets, in order to find any duplications. This approach can discover several types of fraud. One is the most obvious and reprehensible: the fully employed woman with children who at the same time collects a day-care subsidy and a welfare check, or sometimes several, perhaps even on the basis of false representations of the ages and number of her dependents. This kind of case, though relatively infrequent, always gets lots of publicity and is a great triumph for the welfare investigator. The more usual types of fraud are much more ambiguous. They consist of women on welfare with working husbands. Often these men no longer live with their wives or have anything much to do with them; the wives normally are living with other men. This case of fraud differs from all the legal welfare cases, which also involve absent fathers and new men in the home, chiefly in that the woman made the mistake of once getting married and the man made the error of taking an officially recorded job, buying a house, or acquiring some savings.

The fraud cases, in other words, can often arise among the more honest and ambitious of the welfare recipients, the ones who tell the truth about the whereabouts of their husbands or the fathers of their children, the ones who make an effort to marry or save or accept regular work—the ones, in general, who try to leave the welfare culture and thus come into the reach of welfare department computers. The antifraud techniques necessarily miss the welfare mothers who live and bear children of dubious paternity, with a succession of men working from time to time in the cash economy of the street, or those who dabble in prostitution, sharing apartments with other welfare mothers while leaving the children with a forty-five year old grandmother upstairs, who is receiving payments for "disability" from a sore back.

Indeed, the ideal client according to the computer is a woman with several illegitimate children of unsure paternity who goes deeply into debt and spends all her money as soon as it arrives. This ideal has proved easy enough to achieve for some hundred thousand young mothers in recent years. The efforts to radically reduce the welfare rolls by cracking down on morally unsatisfactory recipients—"shirkers" and "cheaters" and other miscreants whose crimes can bring crowds indignantly to their feet—normally offers a small yield of real offenders but a large number of marginal cases that would take thousands of Solomons to fairly sort out.

No one argues that welfare should not be resourcefully policed. The law must be enforced. But endless injustices and anomalies are absolutely unavoidable in any means-tested system, any system for which one qualifies by showing a low income. There is no such thing as a good method of artificial income maintenance. The crucial goal should be to restrict the system as much as possible, by making it unattractive and even a bit demeaning. The anomalies and perversities become serious chiefly as the benefits rise to the point where they affect the life choices of millions.

As in all insurance policies, it is the level of benefits that determines the moral hazards. Fire insurance, for example, becomes an inducement to arson chiefly when a neighborhood declines to the point where the policy payoff exceeds the value of the housing. Our welfare system creates moral hazards because the benefits have risen to a level higher than the ostensible returns of an unbroken home and a normal job.

Under these circumstances *most* of the cases are fraudulent, in the sense that most of the fathers could presumably marry the mothers of their children and could support them if they had to. But from another point of view, very few cases are fraudulent, since neither the mothers nor their men, in the context and psychology created by the system, could support their children at the levels of "decency" or "adequacy" specified by the U.S. government in its "low-income budget."

For an ill-educated man from the welfare culture to support a family at that level requires delay of marriage and childbearing until after the development of economic skills and then the faithful performance of work over a period of years. These requirements are most essentially moral and familial. The attempt to elicit them by legal pressures while deterring them remorselessly by contrary financial incentives is as hopeless a venture as has ever been undertaken by government.

The most serious fraud is committed not by the members of the welfare culture but by the creators of it, who conceal from the poor, both adults and children, the most fundamental realities of their lives: that to live well and escape poverty they will have to keep their families together at all costs and will have to work harder than the classes above them. In order to succeed, the poor need most of all the spur of their poverty.

By the early seventies, however, a national consensus had been reached favoring a program of "welfare reform" designed to conceal such realities, not only from welfare families but from all American families. A negative income tax was to be established, distributing money to perhaps one-third of all Americans as automatically and comprehensively as the IRS takes it from the rest of us. Poverty was to be abolished by redistribution. Endorsed on various occasions by such diverse voices as Richard Nixon, Milton Friedman, George McGovern, Paul Samuelson, and—above all in eloquent persistence—Daniel Patrick Moynihan, it was an idea whose time had apparently come. But no sooner had the consensus prevailed, so it seemed, than it collapsed.

Senator Moynihan announced, with great courage and simplicity: "I was wrong." Books and articles poured forth, declaring that the present welfare system, for all its manifest faults, was, as it were, "our welfare system, right or wrong," an almost geological feature, one expert described it, with rocks and rills and purpled hills like America itself. "A wonderfully complex array of programs, payment levels, and eligibility rules," wrote Martin Anderson, Ronald Reagan's counselor, "a complex welfare system dealing with the very complex problem of the poor in America."[2] Anderson thought benefit levels could even be raised if work and child-support requirements were stiffly enforced.

Richard Nathan, Nelson Rockefeller's former adviser on the subject and long a high level Republican at HEW and the White House, agreed: no large changes were needed, just marginal reforms. Three liberal professors from the University of California at Berkeley endorsed this view in an intelligent article in *The Public Interest*: "The uniform, efficient welfare system of the economic textbooks is nothing but a mirage. Even the most comprehensive reform will leave a system with many of the current problems, and much of the current public unhappiness."[3] They called for incremental changes only. Senator Russell Long read Anderson's book and distributed it to all members of the Senate Finance Committee, which would have to approve of any reforms; and Senator Moynihan held hearings that finally interred the idea of the kind of guaranteed income which he had often previously acclaimed as "the most important domestic proposal since social security."

Meanwhile, out in Wisconsin at the Institute for Research on Poverty, Irwin Garfinkel, Robert Haveman, and David Beaton of HEW applied their earnings capacity concept to ten different income-transfer proposals, including Nixon's Family Assistance Plan, Wage Subsidies, Child Allowances, and several Negative Income Tax schemes. Running all of them through their computers, the Wisconsin scholars discovered, much to their academically muted surprise, that AFDC was easily the best in its ability to reach efficiently the truly needy poor—that is, the poor who not only lack money but also lack the means to earn it.[4] AFDC had the advantage, it seemed, of excluding most of the college students, trust-fund remitees, semiretired nearly novelists, willingly part-time cabinet-makers, and other potentially self-supporting types who are heavy beneficiaries of any of the purely income-based programs. After all the years of ingenious research and embattled legislation, all the urgent speeches and recriminations, we had ended up very close to where we had begun—with the established welfare system, admittedly much amended, and a resolve better to enforce its provisions.

What had happened was fairly simple and altogether remarkable: two kinds of experiments were conducted and their results were taken to heart. One was a program of reforms applied statewide in California by Governor Reagan. A determined effort to enforce work and child-support rules while increasing benefits to the "truly needy," the Reagan measures were hailed a success by everyone from Nelson Rockefeller to

Jerry Brown. Over a period of two years costs were controlled and the rolls were reduced by four hundred thousand below previous levels and by eight hundred thousand below projected levels.[5] The other experiment—a test by HEW of the impact of guaranteed incomes on work effort and marital stability—took place in several cities and was climaxed by extensive programs in Denver and Seattle.

In this HEW test, income guarantees turned out, in the view of HEW's own contractors, to be a catastrophic failure, reducing work effort by between one-third and one-half and increasing marital breakdown by about 60 percent, compared to a control group largely on AFDC. It was determined that work force withdrawal would constitute between 25 and 55 percent of the real cost of a program maintaining incomes at a level near the poverty line, and that any benefits in reducing poverty would be nullified by the effect of broken marriages in perpetuating it. The conclusion was that a guaranteed income would be far more destructive in every way than the current welfare system.

Because of the amazing capacity of social-science methods to avoid discovering the most obvious facts of work and family, these findings came as a great surprise even to people who had long ago predicted them.[6] Not only had the results of a previous experiment in New Jersey been interpreted in a way that at first failed to show any such effects, but endless analyses of AFDC, made by apparently scrupulous researchers, had also revealed no consistent causal link between welfare and family breakdown and had indicated that a guaranteed income would be beneficial to families. The consensus of social scientists was that unemployment and poverty were the culprits, causing families both to break up and to go on welfare, and that racism and sexism were the chief causes of low incomes.[7]

The findings from Denver and Seattle, though, banished all confidence in the beneficial impact of federal income supports of any sort, whether AFDC or radical reform. Since no one was proposing structural reforms that did not move in the direction of guaranteed incomes, Ronald Reagan's California crackdown loomed as the new hope for a better system.

Most of what Reagan accomplished in California was indeed impressive. By the time he acted in 1971, the rolls had quadrupled in less than a decade, reaching a total of more than five hundred thousand families (2.1 million total recipients) and were still rising by some eight thousand cases a month.[8] Similar upsurges in other states had met with numb indulgence, as in Massachusetts and Michigan, and with feckless appeals for help from Washington, then considering the Family Assistance Plan. Accompanying the bail-out demands, all too often, were foolish posturings. New York attempted to reimpose a six-month residency requirement, though it had already once been ruled unconstitutional and though residency rules have the perverse effect of tying down the poor at the very time they most need to move around in search of jobs.

Reagan instead developed a set of legislative proposals and administrative measures designed to put teeth into the work requirement, remove from the rolls all cheaters or others with adequate income or assets, and search out delinquent fathers and force them to make child-support payments. These actions halted the flood of new applications in their tracks and slowed the growth rate of welfare expenditures from 25 percent a year to 5 percent a year.

Nonetheless, for all its short-run effectiveness, the Reagan program reflected a serious misunderstanding of the welfare problem. After closing the barn door, applying an elaborate system of locks and alarms, after hiring new detachments of police to patrol the premises and bureaucrats to manage the new paperwork, the Reagan reformers, it might be said, set the whole new structure on fire—by agreeing to index the benefits to the rate of inflation. Moreover, they raised the grants for families certified to be truly needy by 43 percent. The result was fine for Reagan, who managed to gain political support to retrench the rolls during the final years of his administration, but the longer-run effects were less appealing.

Governor Brown later asserted that the program was "holding up well." But, in fact, by 1978 California—a sunny state with relatively low living costs and a buoyant economy—was running behind only Massachusetts in the continental United States in the percentage of its budget devoted to welfare, the level of payments to each family, and the amount of welfare spending and number of recipients in proportion to its population. With about 25 percent more cases than economically stagnant New York, California's case load was increasing at a rate that was 40 percent faster, in the face of a far greater welfare bureaucracy, enlarged by Reagan to enforce the new rules. Of course, Massachusetts' rolls, which were expanding at about the California pace when Reagan acted, were growing almost five times as fast toward the end of the decade. The worst approach to welfare is still to do nothing to restrict its growth. But California may well have hit on the second worst approach.[9]

Thus, in the new consensus for "conservative" reforms, is evident the same illusion that was earlier found in the arguments for a guaranteed national income: the mirage of a "good" welfare system, the idea that one can create a "rational" and "compassionate" program that raises truly needy recipients above the poverty line while rigorously excluding the unworthy, forcing fathers to support their children, and requiring all able-bodied recipients to work.

Any welfare system will eventually extend and perpetuate poverty if its benefits exceed prevailing wages and productivity levels in poor communities. A change in the rules can produce immediate cutbacks, as Reagan proved. But in time welfare families will readjust their lives to qualify for what is their best available economic opportunity. As long as welfare is preferable (as a combination of money, leisure, and services) to what can be earned by a male provider, the system will tend to deter work and undermine families. Rigorous enforcement of the rules only means that the families must adjust more and conceal more in order to meet the terms specified by Washington

This does not mean that welfare families carefully calulate their benefits and deliberately choose to break up, that teenaged girls forgo contraception in the assurance of welfare, or that welfare mothers reject tenders of marriage consciously in order to stay on the dole. All these things may happen; but in the more usual pattern, welfare, by far the largest economic influence in the ghetto, exerts a constant, seductive, erosive pressure on the marriages and work habits of the poor, and over the years, in poor communities, it fosters a durable "welfare culture." Necessity is the mother of invention and upward mobility; welfare continuously mutes and misrepresents the necessities of life that prompted previous generations of poor people to escape poverty through the invariable routes of work, family, and faith.

Above all, by making optional the male provider role, welfare weakens and estranges the prime mover in upward mobility. Unlike the mother's role, which is largely shaped by biology, the father's breadwinner duties must be defined and affirmed by the culture. The welfare culture tells the man he is not a necessary part of the family: he feels dispensable, his wife knows he is dispensable, his children sense it. The combination of welfare and other social services enhance the mother's role and obviate the man's. As a result, the men tend to leave their children, whether before or after marriage. Crises that would be resolved in a normal family may break up a ghetto family. Perhaps not the first time or the fifth, but sooner or later the pressures of the subsidy state dissolve the roles of fatherhood, the disciplines of work, and the rules of marriage.

The fundamental fact in the lives of the poor in most parts of America today is that the wages of common labor are far below the benefits of AFDC, Medicaid, food stamps, public housing, public defenders, leisure time, and all the other goods and services of the welfare state. As long as this situation persists, real family poverty will tend to get worse, particularly in areas congested with the poor.

The battle between the two kinds of "reform," liberal and conservative, then, is largely fake. Neither side is willing to tolerate fraud, both sides advocate largely fraudulent work requirements, and neither side understands the need to permit a gradual lowering of the real worth of benefits—by allowing inflation to diminish their money value and by substituting relatively unpalatable in-kind supports. In fact, both sides are willing in principle to index the benefits to the price level, thus making them yet more reliable and attractive, still more preferable in every way to the taxable, inflatable, losable, drinkable, druggable, and interruptible earnings of a man (not to even consider the female recipient's own potential earnings, which require many hours a month of lost leisure and onerous work). All earnings, moreover, entail the hazards of forgoing Medicaid for the sick, food stamps for the hungry, housing subsidies for the lucky, and public defenders for the unlucky, often needed in the welfare world. The conventional wisdom on welfare has not even begun to acknowledge or come to grips with the implications of this long series of generous and seductive programs.

The Denver and Seattle experiments give what should be shocking testimony to the existing dangers of AFDC. These tests are ordinarily discussed as if their interest was chiefly academic, bearing on the problems of some now utterly unlikely program of guaranteed incomes. But, in fact, AFDC already offers a guaranteed income to any child-raising couple in America that is willing to break up, or to any teenaged girl over sixteen who is willing to bear an illegitimate child. In 1979 there were some 20 million families that could substantially improve their economic lot by leaving work and splitting up. Yet they did not. Three-fifths of eligible two-parent families even resist all the noxious advertising campaigns to apply for food stamps,[10] which they can have merely for the asking. Millions of qualified couples continue to jilt the welfare state. Only in the ghetto, among the most visible, concentrated, and identifiable poor, have the insidious seductions of the war on poverty and its well-paid agents fully prevailed over home and family.

What the HEW experiments showed, however, was that many of the yet uninitiated families are vulnerable to a better marketing effort. They will break down rather readily when fully and clearly informed of the advantages and not effectively threatened with child-support suits. In other words, the test showed that millions of jobs and marriages would be in jeopardy if placed in the midst of a welfare culture where the dole bears little stigma and existing jobs pay amounts close to the welfare level or pay cash untraceable by official investigators.

As serious as existing welfare problems may seem, they are dwarfed by the potential crisis. At present, even among the actual clients of AFDC, only about one-fifth have capitulated to the entire syndrome of the welfare culture. Only 20 percent accept the dole as a more or less permanent way of life. That 20 percent, though, takes some 60 percent of the money.[11] The rest of the beneficiaries dip into the system during a few years of family crisis and then leave it, often never to return. One danger of benefits indexed to inflation is that they will induce increasing numbers of welfare cases to become welfare cultured, with results resembling Denver and Seattle. More recent evidence suggests that this is happening in California, where nearly 30 percent of the recipients appear to be long term.[12]

The more profound threat, however, arises from the current demographic situation. There are three principal trends relevant to welfare: one is a fifteen-year period of declining birth rates; two is the aging of the baby boom generation; and three is the increasing reluctance of the American poor to perform low-wage labor. These trends mean that beginning in the mid-1980s, there will be a long-term decline in the number of workers available to support the increasing numbers of the retired.[13] This development portends a grave crisis for our social-security and pension systems. It is doubtful that work effort will persist if pension taxes rise to double and triple the current levels, even if largely disguised in value added taxes or other concealed imposts.

The solution to this problem, though, is close at hand, looming beyond the shores of the Rio Grande. The current flood of immigration, legal and illegal, will be permitted to join the official economy and replace the unborn workers of the baby dearth, workers who might have paid for the pensions of their elders. It takes no special feat of insight or imagination, or even much scrutiny of Latin American birth rates and economic growth levels, to predict that the current Hispanic minority, which now numbers some 12 million, about half of the black population, will equal it within a decade or so. Whether the Hispanic minority will follow the footsteps of blacks into the welfare culture should be a paramount concern of American domestic policy.

As the seventies drew to a close the portents were dire. Hispanic families, once more stable then black families, retained a small advantage in the proportion of those still intact, but they were breaking down at about twice the black pace. Legalized aliens were moving onto welfare in distressing numbers. Hispanics were increasingly adopting a posture of confrontation with the government, seeking aids and subsidies and minority status, and they were discernibly slowing their movement into business and low-wage jobs.[14]

Even more disturbing was the response of the U.S. government. Rather than learning the clear lessons of the American experience with Indians and blacks—the previous minorities reduced to a state of bitter dependency by government—the Washington bureaucracies were rushing to accommodate the new immigrants within the old formulas of "discrimination" and "poverty". Far worse, HEW adopted, in defiance of the entire glorious history of previous immigrants in America, an utterly indefensible program of bilingual education, which in practice means education in Spanish. At the same time, HEW is issuing requirements that all public documents and forms be translated for Hispanics. These actions simultaneously undermine the group's entry into American life and culture, segregate it in presumably separate but equal classrooms, often run, according to many reports, by anti-American teachers, and open the group chiefly to two influences: Spanish-speaking politicians with an interest in segregation and Spanish translations of bureaucratic social programs.[15]

These approaches together constitute, for Hispanic women, a gilded path into the arms of the welfare state, and for Hispanic leaders, a glittering invitation to a politics of sedition and violence—to a prolonged posture of protest, with a segregated and subsidized captive audience, against the country that seduced their women and left their men without a role.

This is the danger that the welfare culture poses in coming years. It is a danger, however, that can be easily avoided. The necessary steps are clear. Welfare benefits must be allowed to decline steadily in value as inflation proceeds. The Medicaid program, which alone provides a more than adequate reason to remain in poverty, must be amended to require modest payments in all but catastrophic cases. Rents must be paid directly to landlords, who are easier to supervise than hundreds of thousands of welfare clients, most of whom pay their rents only sporadically.

Under the present system, recipients treat their rooms as disposable items, so much residential packaging for their lives of dependency. Moving from apartment to apartment as landlords finally manage to evict them—leaving their quarters in a shambles—the members of the welfare culture tend to consume more housing, in terms of its financial value and depreciation, than does the middle class. This process is as demoralizing for the clients as for the landlords and for the government officials who condone it. It leaves vast stretches of many cities in a state of physical and social ruin. It can be mitigated by paying the money to landlords, a procedure widely used until a federal court vetoed it, or by issuing some kind of rental stamps that are difficult to convert into cash.

A solution to the welfare problem is possible if the essentials are understood. The preoccupation with statistics of income distribution has led to a vision of poverty as the steady state of an inert class of citizens. Social policy is conceived as acting on these persons, but *they* are not believed to act on it—to exploit it in their own interests. For most people, however, poverty is a passing phase, caused by some crisis in their lives.

The goal of welfare should be to help people out of these dire but temporary problems, not to treat temporary problems as if they were permanent ones, and thus make them so. This goal dictates a system nearly the opposite of the current one.

The current system, like Harvard in a popular epigram, is very difficult to get into but relatively easy to stay in. It is of comparatively little help to people in emergencies. Applicants normally have to wait weeks, fill out forms by the ream, and submit to prolonged tests and evaluations before they are finally admitted to the promised land. As a rule, the more generous the grants, the narrower the gates. The more commodious the benefits for the qualified recipients, the harder is the regimen for the unpremeditated poor: the woman newly arrived from afar, the man who lost his job or lost his wife or suffered a medical catastrophe but did not choose to sell his home. New York State's welfare program, for example, is third in the country in the real value of its benefits but, according to one study, it ranks fiftieth in ease of entry. California is not much ahead. Both programs create maximum incentives to qualify for them: maximum rewards for maximum familial strife and disruption. A sensible program would be relatively easy on applicants in emergencies but hard on clients who overstay their welcome.

Ideally such a system should be supplemented with child allowances given to every family, of whatever income, for each child. These payments, which would be taxable, are designed to relieve the pressure on large families to become female headed, because welfare is the only income source that automatically increases as the family grows. Allowances also reduce the pressure for constant inflationary increases in the minimum-wage rate, by counteracting the idea that every wage by itself must support a family. If Moynihan's career in welfare reform yields any clear lesson, it is that professors in politics should advocate their favored programs rather than invent compromises supposedly more acceptable to the public. Moynihan's preferred policy was always child allowances, but he urged a guaranteed income scheme instead because he thought it would be more appealing politically to the Nixon administration. The result was a lost decade of initiatives of little political appeal or objective validity.[17]

Child allowances are currently in effect in most Western industrial nations, but the system has been most fully developed in France. There they were enacted as a program to promote large families. The evidence is that it failed in that goal but succeeded in strengthening all families and in permitting France to avoid the blight of dependency that afflicts the United States.[16] Child allowances succeed because they are not means tested. Because they do not create an incentive to stay poor, they avoid the moral hazards of the war on poverty while giving support to the most welfare-prone families. There is no panacea. Overcoming poverty still inexorably depends on work. But in a world where children are little permitted to earn money for the family, payments to those families that nurture and support the next generation represent a social policy with its heart in the right place.

Such approaches to welfare will win their advocates no plaudits from welfare-rights organizations and few perhaps from politicans who enjoy the power of granting excessive benefits to some and cracking down on others. But a disciplined combination of emergency aid, austere in-kind benefits, and child allowances—all at levels well below the returns of hard work—offers some promise of relieving poverty without creating a welfare culture that perpetuates it. That is the best that any welfare system can be expected to achieve.

Welfare now erodes work and family and thus keeps poor people poor. Accompanying welfare is an ideology—sustaining a whole system of federal and state bureaucracies—that also operates to destroy their faith. The ideology takes the form of false theories of discrimination and spurious claims of racism and sexism as the dominant forces in the lives of the poor. The bureaucracies are devoted to "equal opportunity" and "affirmative action." Together they compete with welfare in their pernicious influence on the poor—most especially the poor who happen to be black.

Our Egalitarian Economists

Melville J. Ulmer

Over the last half-century, the dominant politico-economic movement of the industrialized democratic world has been a drive toward the equalization of incomes. With its roots in the mid-1800's, the movement gained strength in the 1930's and burgeoned brightly in the decades after World War II. Today in the United States, beneath all the hazy gabble about interest rates, money, deficits, and entitlements, this "push to equality," as some have termed it, remains the fundamental political issue. It accounts for the fact that on the Left, Ronald Reagan is the most widely hated man since Senator Joseph McCarthy, leaving Richard Nixon in a modest third place. For Reagan is without doubt the first President in history to confront the drive toward leveling, openly and explicitly, and to attempt to reverse it.

Equality and freedom, of course, have been the cornerstones of democracy through the ages, but when the former is made synonymous with income leveling the two become uneasy companions. Thirty years ago, to the consternation of his liberal colleagues, Bertrand de Jouvenel contended in *The Ethics of Redistribution* that redistribution "conspires to push the individual in the fold (in a uniform mold) under the protection of the state." Although temporarily disconcerting, his argument was meticulously interred in subsequent years by more fashionable reformers on the other side. Recently, and with the helpful benefits of hindsight, the argument has resurfaced. Today it deals not so much with the extremes of income distribution that concerned Jouvenel—perfect equality and unlimited inequality—but with a more immediate and practical question: at what point should the presently evolving redistributive trend be arrested; or, if reversed, at what point should it come to rest? No doubt, that implicit question will and should sway more than a few votes in the congressional contests now in the offing, as it did in the election of 1980 and as it did in the tax-revolt referendums a few years before.

As for the emotions stirred in leftward-leaning circles, the evidence can hardly be avoided: in cartoons, essays, speeches, and TV discourse, the President appears as the administrator of "government by and for the rich" (Edward M. Kennedy), as whip-wielding slave driver (Herblock), gluttonous usurer (Szep), "apostle of naked avarice" (Robert Lekachman), and "sacrificer of the powerless on the altar of the wealthy" (Stephen Rousseas).

The substance underlying this response is not as clear as the response itself, for despite the "brutal cuts" perceived by the Washington *Post* and the New York *Times*, the cold statistical facts show that federal outlays for welfare, including income maintenance and public health, have continued steadily upward—from \$248 billion in fiscal year 1980 to \$291 billion in 1981 and an estimated \$329 billion in 1982. The last figure is more than 70 percent greater than the presumably bloated 1982 budget for national defense.

True, some welfare programs considered less effective, like the notoriously sloppy Comprehensive Employment and Training Act (CETA), have been contracted sharply, but then others designed to help the poor and unemployed have risen even more. Alterations in eligibility requirements have indeed penalized some beneficiaries, like "students" who carefully collected federal "loans" while more carefully never attending school, but others have obviously benefited. A recent example is the "summer meals" program of New York City's Board of Education, which served 200,000 meals daily this past summer against half that number in 1981, despite tightened federal regulations which were supposed to lead to "dangerous" deprivation. In the aggregate, as the data show, the winners in the quest for welfare funds have outweighed the losers.

Nor has evidence appeared as yet that the distribution of income has been significantly altered in favor of the rich since the present administration took office. Corporation profits plunged from \$188 billion in 1980 to \$140 billion (at an annual rate) in the first half of 1982, in the face of a rising price level over this same period. Although spreading unemployment was a well dispersed disaster as the economy declined, total wages and salaries continued their advance from \$1,600 billion in 1980 to \$1,850 billion (at an annual rate) in the first six

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months of 1982. The share in the national income of property receipts in general—including profits, interest, rent, and royalties—dropped from 25 to 23 percent over that period. Welfare payments, which are not counted as part of the national income, ballooned (as I have already noted). A lone hopeful note for business was a significant drop in the pace of inflation. In all, the picture was hardly the dream of the world's greediest capitalists come true.

It would seem, then, that the fury against Reagan on the Left is caused not by his deeds but by his expressed *intention* to halt the growth in programs aimed at siphoning income from the richer to the poorer.

Aside from proposed cuts in welfare, which are still to be won over Democratic protests, the principal symbol of this intention, and a prime target of liberal fire, has been the three-stage 23-percent reduction in personal income-tax rates included in the Economic Recovery Tax Act of 1981, the final installment of which is due next year. That tax cut was "across the board," meaning that it applied equally, at least in relative terms, to all levels of income. For liberals, especially those with intellectual credentials, it was received as an insolent rejection of a gentleman's agreement, a loutish break in the precepts of the "good society." In the past, tax changes had been formulated to yield greater impact on upper-income groups when taxes were increased, and greater impact on those at the opposite end of the scale when they were reduced. Together with the steadily rising "bracket creep," the effect was expected to intensify the progressivity of the income-tax schedule, and it did so sharply.

Between 1960 and 1980, marginal tax rates for middle- and upper-income classes flourished like crocuses in springtime, increasing the tax burden for many by as much as 50 percent, despite unchanged real incomes. Added to this was the explosion of direct benefits for the poor, succinctly summarized by R. Emmett Tyrrell, Jr.:

> Since 1970, Medicare and Medicaid have grown 436 percent. Through the 1970's, welfare programs grew 2¼ times as fast as the GNP and three times as fast as wages. Between 1970 and 1980, real spending per individual poverty client grew 82 percent, not counting increases in Social Security, Medicare, and federal employee retirement programs.

By all available standards, the conclusion seems inescapable that the push to equality made giant strides. One might imagine that liberals were smiling, at least until the election returns of November 1980. But the opposite was true. The liberals' disappointment remained just as fixed, their frustrated compassion for the indigent just as flamboyantly displayed. In their eyes the push to equality was a mirage, while the future loomed as a nightmare.

This judgment was especially influential when emanating from the Democratic party's two leading economic advisers, MIT's Lester Thurow and Yale's James Tobin. Thurow's considered conclusion, repeated relentlessly over the past decade, is that notwithstanding all the spreading paraphernalia of the welfare state, the distribution of income among American families has remained approximately fixed since the end of World War II. As he sees it, the widely publicized welfare programs have simply succeeded in keeping the distribution of income from growing more unequal. Indeed, Thurow predicts that even this service will subside and "the distribution of family income will start moving toward inequality in the 1980's and 1990's"—unless, of course, his own stronger egalitarian prescriptions are adopted.*

To all this, Tobin adds a philosophical contribution. Like the late Arthur Okun, his predecessor as adviser to the Democratic party, he finds on both economic and moral grounds a "strong presumption" for perfect equality in income distribution, limited only by sufficient incentive differentials to keep the economy going.† That same presumption, not always so openly expressed, seems to underlie the calls for "reform" stirring in such radicals as Michael Parenti, E. K. Hunt, Howard J. Sherman, Frank Ackerman, and Andrew Zimbalist.

We shall return to the normative proposition of Tobin and Okun, but demanding attention first are the astonishing assertions about the past. How can Thurow contend that income distribution has remained substantially unchanged in the United States over the last thirty years, against an almost unanimous public conviction to the contrary? Answer: by painstakingly ignoring the relevant data. Thurow uses official Census Bureau statistics clearly labeled by the bureau "Distribution of Money Income Among U.S. Families." But this tabulation, as the Census makes no effort to conceal, shows the money income received by families, poor and rich alike, *before* payment of income taxes. It also excludes *non-money* income provided by government, such as outlays for Medicaid, food stamps, housing, and other so-called in-kind benefits for the poor. In addition, it inadvertently excludes a significant part of the *cash* transfers to the poor, which the bureau acknowledges are systematically understated in its data.

* See, for example, his *The Zero Sum Society* (Penguin Books, 1981), pp. 156-157, and (with Robert L. Heilbroner), *The Economic Problem* (Prentice Hall, fourth edition, 1975), p. 265.

† "Considerations Regarding Taxation and Inequality," in Colin D. Campbell (ed.), *Income Redistribution* (American Enterprise Institute for Public Policy Research, 1977), pp. 130 and 170. Okun's most complete exposition of the subject appears in his *Equality and Efficiency: The Big Tradeoff* (Brookings Institution, 1975).

In short, Thurow demonstrates that welfare benefits and progressive taxes have no effect on "income distribution" by carefully using data which effectively omit their impact.

Fortunately, there are other economists who feel politically and morally free to use *any* data, if informative. In a well-known study published six years ago, Edgar K. Browning mended the Census tabulation on income distribution, at least in part, by taking account of income in kind and the influence of personal income taxes.* Thurow laments that the share in total family income of the poorest fifth of the population was only around 5 percent in the 1970's. Browning shows that it was about 12 percent. Thurow expresses dismay at the 42-percent share that he says accrued to the richest fifth. Browning asserts the true figure was a bit less than 33 percent. Thurow maintains that the pattern of distribution had remained stubbornly stable. Browning shows that the two key percentages since the 1950's had moved almost halfway toward perfect equality.

As one might expect, Browning's estimates did not go unchallenged by liberals. But in due time they received strong support from authoritative sources. The Census Bureau itself, for the first time this spring, took account of in-kind benefits and conceded that its own earlier measurement of the incidence of poverty had been overstated by half. A path-breaking study by Patricia Ruggles of the Congressional Budget Office and the British economist Michael O'Higgins estimates the flow of all government services, benefits, outlays, and taxes to and from households, classified by income size, with results consistent with Browning's.† And a group of Harvard economists is at present probing the influence of changes in the age distribution of the population, a factor heretofore entirely neglected. Over the last two decades the proportion in the total population of young adults and the elderly has risen. Since maximum lifetime earnings normally occur in the middle years, this demographic change in itself provides a spurious appearance of increasing inequality. In fact, as all these studies demonstrate, by the start of the 1980's an enormous push to equality had occurred, even greater than that suggested by Browning's estimates.

How much farther should redistribution proceed, if at all? Six years ago Browning answered, "It may be that we have gone far enough." By 1980, judging from the rhetoric of Republican candidates and the election returns of November, it was clear that many voters believed it had gone too far. But these many voters certainly did not include the more firmly devoted liberals and their professional leaders. When asked how much equality is needed, they faithfully join with Robert Lekachman in answering "More!" Consciously or not, the aim is toward the goal of perfect equality, heartened by the academic sanction that ancient socialist dream has been accorded in the works of Okun and Tobin.

Fundamentally, Okun rests his philosophical case on the principle of human rights—a *right* to all the prerogatives that money provides. Tobin for his part stresses the democratic right to equal opportunity, which he says cannot be exercised in the presence of "inequality of wealth." "Human beings are human beings," he intones, which is beyond dispute except when coupled with his assumption that we are all the same but for a purely fortuitous distribution of talents—strictly called "endowments" in his essays. Inexplicably missing in such discussions—including the popular egalitarian treatise of the Harvard philosopher John Rawls, *A Theory of Justice*—is Jouvenel's argument for personal freedom.

Jouvenel's classic work, *The Ethics of Redistribution*, is now thirty years old and it would be remarkable if experience since then had not sharpened our focus on the issues involved. Jouvenel properly underscores the inescapable growth of a coercive state under an egalitarian rule. But he scarcely mentions the coordinate peril to individuality, which he must have assumed is obvious. Reading some of today's liberals one must conclude that it is not so obvious. The starkest evidence is in Tobin's view of economic outcomes as arising from a purely random distribution of aptitudes and skills—genetic seeds fatefully scattered among the populace and ineluctably destined to determine who will be rich or poor. No role is allowed in this scheme for variations in the degree of concentrated effort, fortitude, self-indulgence, discipline, indolence, forbearance, or motivation that an individual may or may not bring to his native gifts. In Tobin's credo it is mostly automatic, except for the play of Lady Luck and the influence of inherited money.** If a child has exceptionally long, dexterous fingers and a preternaturally sensitive ear, we will be blessed with a Horowitz or a Rubinstein. The child with a sufficiently rare gift for words inevitably grows up to become a Hemingway or a Willa Cather.

Neglected above all in the Tobin-Okun thesis is the democratic right of the individual, whatever his aptitudes, to pursue the kind of life he chooses, provided the rights of others to do likewise are respected. Shall the individual who cherishes material things, and works and saves for them, be forced to share with the nature lover who by choice lives

* "How Much More Equality Can We Afford?" *Public Interest*, Spring 1976.

† "The Distribution of Public Expenditure Among Households in the United States," *Review of Income and Wealth*, June 1981.

** In this, both Tobin and Okun are seconded by Christopher Jencks, who in *Inequality: A Reassessment of the Effects of Family and Schooling in America* (1972) argued that mere chance rather than merit accounts for many of today's inequalities.

simply and labors only when required? Shall the risk-taker who wins be forced to share with the risk-averter who winds up in modest circumstances? Shall a family that stints and saves for the security of later years be forced to share with profligates who lust for each passing fancy as they go along? Must the conscientious and forbearing share with the careless and the indolent? Those who side with Tobin, Okun, *et al.* would have to answer, Yes.

The norms of modern civilization should make it unnecessary to affirm society's obligation to care for its infirm, disabled, elderly, and indigent mothers of toddlers. Many would also agree that it has an obligation to guarantee—not full employment, which is impossible, but a reasonable *opportunity* to find and hold a job for all capable of contributing. But the notion of income equality, no matter how abstract and idealized, is a formula for regimentation. In theory it is destructive of the relationship between democracy and the individual's fundamental right to be different, and in practice it has spawned a tawdry culture of dependency, the immense cost of which underlies most of the economic problems of the Western world.

CAUTIONARY TALES FOR POVERTY POLICY

Robert L. Bartley

Since the advent of the "War on Poverty," the Bureau of the Census has periodically estimated the number of Americans "living in poverty." Over the same time span, the Federal budget has displayed dramatic annual increases in transfer payments intended to maintain income and provide adequate food, shelter and medical care for the aged, infirm, jobless and impoverished. In laying these two sets of statistics side by side, one finds some cautionary tales for poverty policy.

In 1967, for example, the official estimate of the poverty population was 27,769,000, while transfer payments ran to an amount equivalent, in 1972 dollars, to $47.1 billion. By 1975, transfer payments had grown in constant dollars to $115.6 billion, while the poverty population stood at 25,877,000.[1]

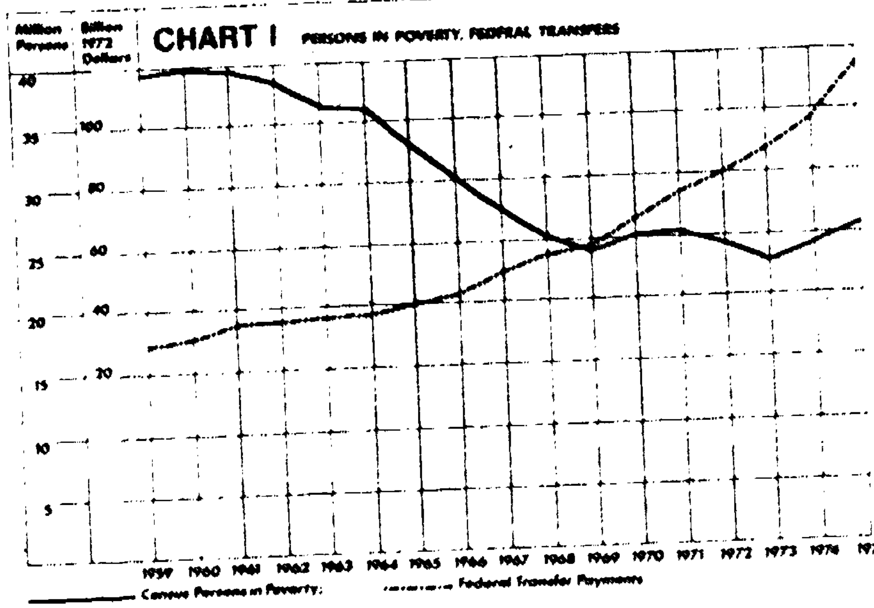
In other words, an expenditure of $68.5 billion had raised an additional 1,892,000 persons out of poverty. To raise one person above the poverty line — $4,430 in 1972 dollars — it cost some $36,000 annually. Given a median family income of about $12,000, this means that to raise one *person* from poverty, three American *families* must labor for a year and donate all of their income for the government to use in transfer programs.

The essential dilemma depicted in these numbers can probably be better understood graphically, as in Chart 1. We see that the big increases in transfers since 1967 have failed to reduce officially defined

[1] Figures for persons in poverty are from The Bureau of the Census *Current Population Reports,* series P 60 and are regularly published in *The Statistical Abstract of the U S* The figures on transfer payments are from *The Economic Report of the President* January 1976 table B-67 converted to 1972 dollars by the GNP deflators in Table B-3

A study sponsored by The Institute for Socioeconomic Studies finds that official calculations underestimate the amount of spending on income transfers The Institute calculates Federal transfers in 1977 at $250 billion in current dollars *An Inventory of Federal Income Transfer Programs Fiscal Year 1977* The Institute for Socioeconomic Studies, White Plains, 1978 poverty. Conversely, however, poverty numbers *did* decline smartly prior to 1967, when Federal transfers were only growing slowly. How can this be explained? Precisely what cautionary tale does the paradox tell?

It will pay to ask, first, whether these hard-to-believe numbers should be believed. A simple and surprisingly persuasive answer to the paradox is that the official statistics on poverty are wrong and misleading.



The Census Bureau definition of "poverty" counts only cash income toward the established "poverty line." The big surge in transfer payments since 1967 has been fueled by "in-kind" programs — food stamps, medical care programs and various housing subsidies. Presumably these programs benefit the poor, serving as an effective substitute for cash. But the official statistics simply ignore them.

This omission calls the Census Bureau figures greatly into question. And without these commonly used figures, we are without any meaningful guide to the extent of poverty. If the Census Bureau statistics do not measure poverty in any meaningful way, how would we ever tell if we succeeded in abolishing it? Indeed, how do we know that $68.5 billion did not succeed in abolishing it between 1967 and 1975?

Perhaps stimulated by this question, and explicitly addressing the "apparent paradox" of mounting transfer payments and stagnating poverty numbers, analysts of the Congressional Budget Office have done a study of in-kind transfers.[2]

The CBO estimated that with no transfer programs whatever, 21.4 million families, or 21 percent of all families, would have been in poverty that year. Social insurance and other cash transfers reduced this number to 10.7 million families, or 13.5 percent. This would correspond to the Census Bureau definition of poverty, and the Census estimated 13.8 percent of families were in poverty in the comparable period of calendar 1975. After adjusting for in-kind transfers, the deduction of taxes and estimated under-reporting, the CBO concluded that the poverty population was 6.6 million families, or 8.3 percent.

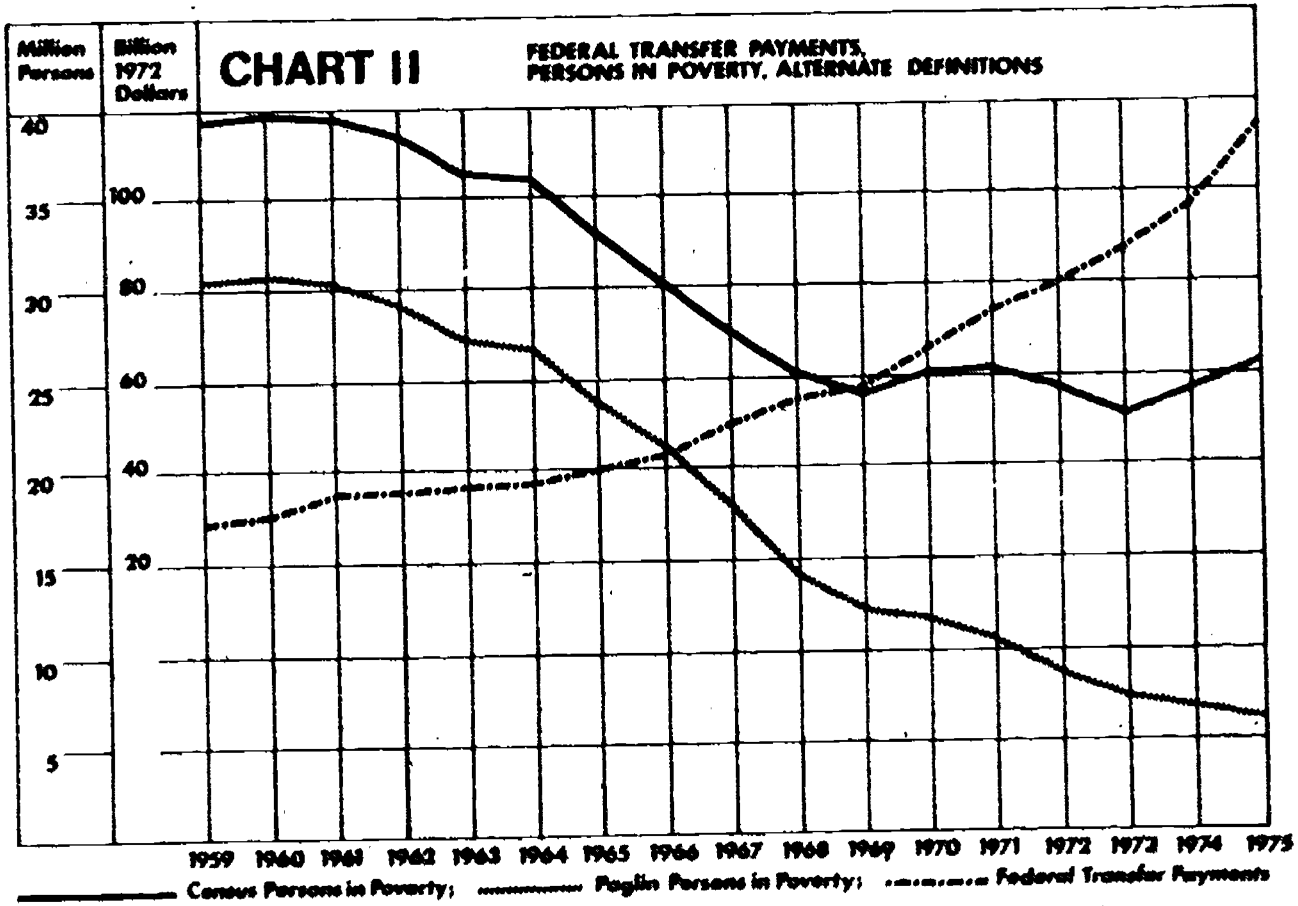
The CBO concluded that the transfer programs have been much more effective in reducing poverty than the "official" Census Bureau statistics show. Between 1965 and 1976, they estimated, poverty was reduced by 56 percent, rather than the 28 percent shown by the Census count.

The particular methods chosen by the CBO do not facilitate comparisons with other data. It chooses to talk not of persons, but of families, "multiple-person families" and "single person families." Its adjustment of the Census concept to include Puerto Rico, not usually counted in these estimates, probably confuses more than it clarifies, given the special problems of the island commonwealth.[3] Its estimates are only for year and denominated by fiscal year rather than calendar years.

Some perspective is possible, though, if on the basis of extrapolations from the Census figures, you assume that CBO's 6.6 million families represent roughly 15 million persons. Then the $68.5 billion increase in transfers between 1967 and 1975 reduced poverty by roughly 12 million persons. This is a far better record than the 1.8 million reduction the Census figures show. It means the cost of lifting a person out of poverty was about $5,700. For a family of four, however, this is equivalent to $22,800.

[2] Congressional Budget Office, Poverty Status of Families Under Alternative Definitions of Income. *Background Paper No. 17, June, 1977*

[3] Puerto Rico, for instance, is particularly hard-hit by the U.S. minimum wage law, holding wages above its natural competitors in the Caribbean. Puerto Rican governments periodically urge a separate minimum for the Commonwealth.


Million Persons
Billion 1972 Dollars
CHART II
FEDERAL TRANSFER PAYMENTS, PERSONS IN POVERTY, ALTERNATE DEFINITIONS
40
35
30
25
20
15
10
5
100
80
60
40
20
1959
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1961
1962
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1964
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1972
1973
1974
1975
Census Persons in Poverty; Paglin Persons in Poverty; Federal Transfer Payments

Another, and more optimistic, estimate of the effect of in-kind transfers arrays the figures in more accessible fashion. This was done by Morton Paglin, professor of economics and urban studies at Portland State University.[4] Professor Paglin's yearly estimates of persons in poverty after in-kind transfers are presented in Chart II. He finds that by 1975, the poverty population had been reduced to 6.4 million persons.

Professor Paglin also makes clear that his residual 6.4 million persons, or three percent of the population, would include households with a wide variety of special situations.

— retired persons living on savings;

— young or old households dependent on contributions from their families;

— recipients of transfers from wholly state and local income support programs, not included in the study;

— families formed after the reporting period, but before the interview period;

—families with accounting losses, but positive cash flow;

— those who qualify as poor by income tests, but who are excluded from in-kind transfer programs by asset tests; and

— those who do not wish to participate in the programs.

If Professor Paglin's estimates are right, remaining poverty is not so much a social problem as a statistical artifact. It may be that the "War on Poverty" has after all been won, at least in terms of providing practically everyone a minimum level of support. This would be no inconsiderable victory, but even if true, most of the social pathologies usually associated with poverty remain. The South Bronx is still obviously a dreadful place to live and so on. If 'poverty' has been abolished, we will need a new rubric for describing these problems. Perhaps we suffer not from "poverty," but from "dependency."

Curiously enough, though, a great deal can be learned by laying aside the problem of defining poverty and accepting for a moment

[4] Transfers in Kind: Their Impact on Poverty, 1959-1975. Prepared for Hoover Institution Conference on Income Redistribution, October 7-8, 1977 (mimeo)

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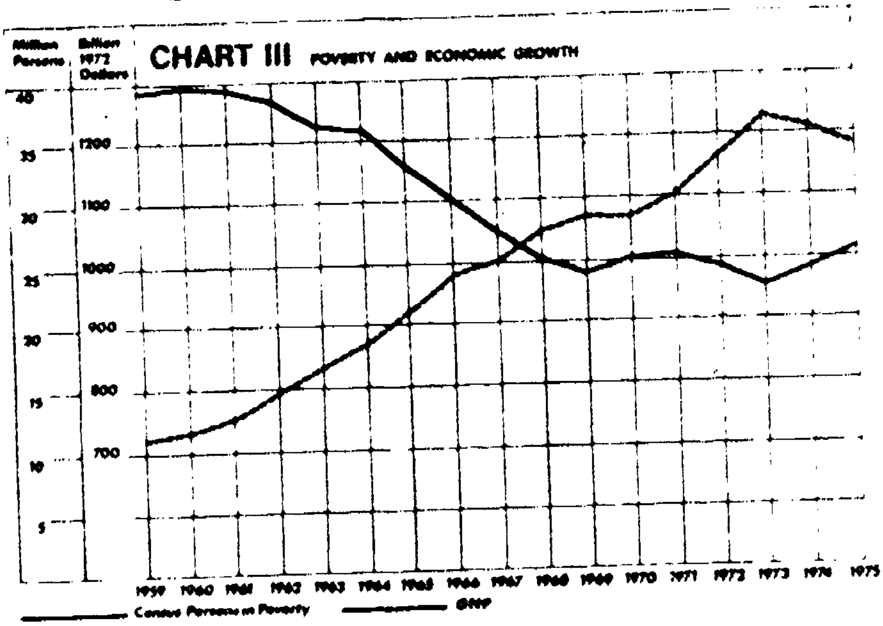
the Census Bureau estimates. In Chart III, a second and entirely different cautionary tale is evident. Poverty did decline rapidly, after all, before the big expansion of transfer payments started in 1967. And if you glance at Chart III, you can take the stagnation of the numbers since 1967 merely as the result of a stagnating economy.



While money income is no longer a meaningful measure of hardship, it would appear to be a rough proxy for the integration of the poverty population into the general economy. In the post-1967 period, Chart III suggests the relationship between economic growth and providing the poor with opportunities not only to escape severe hardship, but to become reasonably self-sufficient individuals.

There would of course be wide agreement that fast economic growth is a good way to fight poverty, but at this juncture few agree on what policies will produce fast economic growth. Here the issues of poverty merge with the entire field of macroeconomics, itself in vast disarray. This is far from the occasion for a comprehensive review of economic theory, but one general caution and one specific possibility seem particularly relevant to the issue of poverty and transfer payments.

The general caution is that our experience over the last few years suggests that we know a great deal less about macroeconomics than we once believed. Given the record budget deficits and slowish economic growth we have experienced, and given that internationally the nations with the largest deficits are those in the most trouble, it's difficult to sustain beliefs that manipulation of the deficit can "fine tune" an economy.[5]

While the inflation of the past few years has been accompanied and preceded by rapid money creation, it is much more difficult to find plausible monetary causes for recent perturbations in real growth, such as the 1973 boom and 1974 collapse. It becomes reasonable to speculate that while Keynesian and ~~monetarist models succeed in~~ past periods, something in their underlying assumptions no longer fits our current situation. Both are demand models, assuming that if economic policy creates sufficient aggregate demand, supply will be forthcoming. There is currently renewed interest in the other side of the classic equation. Perhaps something is retarding aggregate supply.

This leads to the specific possibility. If there are supply-side problems, the list of possible villains is a long one: the generally debilitating effect of inflation, inadequate capital investment, rapidly growing government regulation of business to further environmental and social goals. But this list of possible villains does also need to include the high levels of taxation needed to finance growing government expenditure, in particular surging transfer payments.

An important source of financing for the recent surge in transfer payments has been the government's "inflation dividend." As inflation leads to higher nominal salaries for the same real income, taxpayers are pushed up through the progressive tax schedule and the government takes a larger share of their real income. There are similar effects on business taxation.

By 1977, further, larger outright tax increases were being passed or contemplated by Congress and the Administration, to regulate energy use and finance Social Security transfers. By pushing the Social Security wage base up to levels where the progressive income tax bites sharply, the Social Security bill sharply increased marginal tax rates to be faced by the broad range of taxpayers as the tax increase phases in. Economists typically conclude that ultimately the employee bears both his share of the Social Security tax and his employer's. By this calculation, the final rates in the bill mean that a single worker making $20,000 would pay a combined marginal tax of more than 52 percent, while a working couple making $40,000 would pay a marginal rate of more than 62 percent.

[5] Cf. "Keynes Is Dead," *The Wall Street Journal*, January 31, 1977.

The possibility that such levels of taxation may retard work effort and economic growth has not been seriously investigated. There are a number of reasons for this. The general emphasis on aggregate demand has led economists in other directions. Anecdotally, some high-income individuals seem driven not by financial incentives, but by personal neurosis.

What consideration has been given the incentive effects of taxation has started, and pretty much stopped, with the observation that there is an "income effect" and a "substitution effect." As marginal tax rates increase, a taxpayer may work less, feeling he gets less return from addition effort—the "income effect." On the other hand, he may work more to sustain a desire—standard of living—the "substitution effect." Few economists have thought enough about this to observe that when taxes finance transfer payments any substitution effect washes out over the population. You are left with the income effect and its incentive for less work and less production.

It is intriguing to look at foreign societies that have experienced the rates of taxation toward which the United States seems to be headed. In Britain, talk of a need for "incentives" for middle and higher managers is now endemic. Even the head of the Labor Party finds himself disavowing conventional Keynesianism.[6] And the most widely discussed recent work of economics, by young Oxford economists Robert Bacon and Walter Eltis, argued that Britain's problem has been too much public spending on non-productive enterprises.[7]

The case of Sweden is even more interesting. For some time, despite its high welfare spending and accordingly high tax rates, Sweden enjoyed the best economic growth in Europe. This seems to have been an artifact of high rates of capital investment, maintained through a social insurance fund. The Swedes decided that rather than financing social security on a pay-as-you-go basis as in the U.S., they would accumulate a portfolio of investments like a private pension. So tax rates were held above social security expenditures, in effect accumulating massive government surplus for reinvestment in the bond markets, thus providing funds for capital investment.

[6] Prime Minister James Callaghan told the 1976 Labor Party Conference "We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candor, that the option no longer exists, and that insofar as it ever did exist, in only worked by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history for the past 12 years."

[7] Robert Bacon and Walter Eltis, "Britain's Economic Problems: Too Few Producers," New York: St. Martin's Press, 1976. The book is adapted from the original series of articles published by *The Sunday Times* in 1975.

In the current world economic difficulties, though, the crash of the Swedish miracle has been particularly spectacular. Perhaps the problem was caused simply by a blunder, a classic risk of central planning.[8] But perhaps it is more systemic. Swedish businessmen report that their biggest problem is labor absenteeism. Leonard Silk, an economic journalist well versed in conventional Keynesian analysis, reports that high taxes are widely seen in Sweden as "sapping the initiative of both businesses and individual workers."[9]

Assar Lindbeck, one of Sweden's several world-class economists and in politics a Social Democrat, holds that, as paraphrased by Mr. Silk, "the root causes of the 'Swedish sickness' are those against which Professor Friedrich Hayek had warned during the Depression: that the welfare state, with its burgeoning social benefits and high taxation, would in the end arrest the dynamism of the economic system." There is reason to believe, especially since Mr. Lindbeck is an adviser to the selection committee, that the startling selection of the pre-Keynesian Professor Hayek for the Nobel Prize in Economics owes something to the Swedish experience with the welfare state.

Precisely what moral, then, do these cautionary tales leave for poverty policy? Surely not to abandon the effort to help society's disadvantaged. Their problems extend beyond mere sustenance, and surely one measure of a just society is providing the opportunity for solving them.

Beyond that, the poor have much to offer the rest of us. This society has been vastly enriched by succeeding generations of poor raising themselves not only to affluence, but to positions of importance. There is no reason to believe our current generation of poor will not succeed as well if provided at least the same opportunities.

The experience of the past few years, though, suggests that further huge increases in transfer programs are unlikely to fuel such an advance. Between 1967 and 1975, Federal transfers grew from five percent of GNP to 9.7 percent—ignoring state and local social welfare contributions and Federal grants-in-aid to state and local government, both of which also grew rapidly in the period.[10] Short of actual as opposed to rhetorical war, it is most unusual for anything to double as a

[8] Richard Janssen, "Trouble on the Road to Utopia," *The Wall Street Journal*, November 10, 1977.

[9] Leonard Silk, "The Swedish Sickness — Gloomy Economic Picture," *The New York Times*, November 10, 1977.

[10] The Institute for Socioeconomic Studies will publish an inventory of all state and local income transfer programs devoted to income maintenance.

percent of GNP in eight years. This growth is not likely to be repeated.

Nor is it entirely clear that the poor would benefit if it did continue. The poor will surely suffer from shrinkage of the economic pie to be divided between producers and non-producers, and it is scarcely inconceivable that further large increases in transfer payments would have this effect. While our recent experiences teaches us to be wary of any economic "truth," we may be reaching levels of taxation that will hamper economic growth.

But here is also a bright side to the coin. Quite substantial resources are already available for easing the burden of poverty. One would have thought that an increase of $68.5 billion in transfer payments would have gone a long way toward easing a poverty deficit of $13.6 billion. One can understand that a certain amount of inefficiency is inevitable, and that the expenditure brought a measure of security for others besides the desperately poor. Still, something in the priorities was sadly wrong if such an expenditure did not provide sustenance for those who most needed it.

If the increase in transfer payments did not reduce the poor, as the Census Bureau would have us believe, then surely the next emphasis of poverty policy ought to be not pouring money into the same programs, but reforming them to deliver out what is put in. If the CBO poverty estimates are the accurate ones, the situation is less scandalous, but the programs leave plenty of room for more reforms. If, as the sheer magnitude of the spending would suggest, we have fairly well solved the problem of sustenance, it would perhaps be time to pause and celebrate. But it would also be time to think of redirecting poverty policy away from merely providing support, toward providing an opportunity to grow away from income transfers, toward an association between effort and reward, away from economic redistribution, toward economic growth, away from the goal of more equality, toward the goal of greater social mobility.

The welfare state vs. the redistributive state

MARC F. PLATTNER

In the course of the 1970's, the United States has been engaged in an intensifying public debate over the future of the welfare state. At the present moment, widespread concern about inflation, along with resentment against high taxes and "big government," is creating pressures toward a modest retrenchment in spending on social programs. We will probably be witnessing further efforts to make these programs less wasteful and more efficient, and even to eliminate some of the more unproductive and intrusive ones. But despite the hopes of some on the Right and the fears of some on the Left, these efforts are not likely to lead to the crippling or destruction of the welfare state; indeed, if successful, they will undoubtedly conserve and strengthen it.

During the past decade, however, there has also been another noteworthy development in the debate over the welfare state. This more subtle but nonetheless critical change, which has been promoted largely by academics and intellectuals on the Left, amounts to nothing less than an attempt at a fundamental redefinition of the very purpose of the welfare state. This new vision of the purpose—and the agenda—of the welfare state can be expressed in a single phrase: the redistribution of income.

Now it might appear that such a platform would be nothing new for American liberalism, but merely more of the same medicine it has been prescribing for many years. After all, the United States has had a progressive income tax since 1913, and an extensive set of social-insurance and welfare programs at least since the New Deal. In more recent years the scope of these so-called income-transfer programs has grown enormously, and therefore the United States is already redirecting a vast amount of income from its richer to its poorer citizens.

But while the principles of progressive taxation and of the welfare state have come to be almost universally accepted, it would be a serious error to infer that the American polity has ever embraced the idea of income redistribution. Properly speaking, a policy of income redistribution is one that is *explicitly* aimed at reducing inequality in incomes. And the legitimacy of this goal has never been endorsed by the American people or their elected representatives. The progressive income tax was generally justified, not as a means of channeling funds from the rich to the poor, but as a fair distribution of the tax burden according to the taxpayer's ability to pay. The rationale was not that after-tax income should be made more equal, but rather that there should be an "equality of sacrifice" among the citizenry in meeting the revenue needs of government. As Walter J. Blum and Harry Kalven Jr. argued in their classic study *The Uneasy Case for Progressive Taxation*, progressive taxation was originally able to become a "respectable idea in our society" precisely *because* it was justified on non-redistributive grounds.

Similarly, social-insurance programs were meant to provide a cushion against particular contingencies, and welfare and other anti-poverty measures were intended to relieve those who were unable to provide for their own needs in a minimally acceptable fashion. But one can easily accept the principle of public insurance on the one hand and public charity or relief on the other without acknowledging the propriety of governmental efforts to promote the goal of greater equality of incomes. And, in fact, the United States has adopted an impressive array of policies that wind up transferring money from the rich to the poor, but it has never approved a policy of explicit income redistribution. J. R. Pole, in his recently published *The Pursuit of Equality in American History*, asserts, "Not until George McGovern became a Presidential candidate . . . was the question of income redistribution placed on any party's agenda for serious political consideration . . ." The fate of McGovern's "demogrant" proposal—and of his candidacy—shows how far the American public is from accepting the legitimacy of income redistribution.

Two views of taxation

The hostility of the American people to income redistribution is clearly recognized by the most intelligent and forthright of its proponents. A notable example is Christopher Jencks, whose *Inequality* is perhaps the most explicit attempt to discredit the pr nciple of equality of opportunity that animated social-reform efforts in the 1960's and to put in its place the principle of equality of result, with income redistribution as its chief instrument. The final chapter of Jencks' book features the following conclusions:

> The crucial problem today is that relatively few people view income inequality as a serious problem....
>
> If egalitarians want to mobilize popular support for income redistribution, their first aim should be to convince people that the distribution of income is a legitimate political issue. Americans now tend to assume that incomes are determined by private decisions in a largely unregulated economy and that there is no realistic way to alter the resulting distribution. Until they come to believe that the distribution of income is a political issue, subject to popular regulation and control, very little is likely to change.... We need to establish the idea that the Federal government is responsible not only for the total amount of the national income, but for its distribution. If private decisions make the distribution too unequal, the government must be held responsible for improving the situation....
>
> ...[I]f we want substantial redistribution, we will not only have to politicize the question of income inequality but alter people's basic assumptions about the extent to which they are responsible for their neighbors and their neighbors for them.

It is doubtful whether Jencks' exhortations have had much of an impact on the thinking of most Americans. However, the redistributionist premise has made considerable headway among those directly involved in the discussion and formulation of public policy. Increasing attention is being paid to the distributional consequences of government policies and programs; there is a growing sense that the distribution of income is a proper political concern; and there is a marked tendency to view specific public policies as justified only if—whatever their other effects—they contribute to (or at least do not work against) a narrowing of income inequalities.

Consider the public debate about the propriety of some form of tax credits , ieductions for parents paying college tuition for their children. A principal argument employed by the opponents of such a policy is that it would bring greater savings to those taxpayers in the upper half of the income spectrum and thereby make the post-tax distribution of income more unequal; moreover, it would result in some tax reduction even for tuition-paying parents who are at the very top of the income distribution. These overall distributional arguments are regarded by many as outweighing any specific considerations relating to the tax treatment of college tuition: whether, like homeownership, college attendance should be encouraged by Federal tax policy; and whether it is fair that two otherwise identical families (say, with incomes of $25,000) should bear the same tax burden if one is supporting two children in college (say, at a cost of $8,000 in tuition) and the other has no college expenses. In a wide range of other policy areas, there has been a similar tendency to give greater weight to overall distributional implications, especially where the tax system is concerned. Tax policy is increasingly viewed by public-policy experts as a way to redistribute income, rather than as a way to apportion the financial sacrifice citizens must make to support their government.

The distinction between these two conceptions of taxation is nicely illustrated by another quote from Jencks' *Inequality*: "Americans have a strong feeling that once they have 'earned' a sum of money, it is theirs to do with as they please. They view taxes as a necessary evil, not as an instrument for making the distribution of income more equal." This appraisal is surely correct. It is true that, insofar as Americans generally endorse the notion of the progressive income tax, they accept the view that the better off should contribute a somewhat greater proportion of their incomes than the less well off toward defraying the cost of public business. Yet, most Americans still adhere to the traditional conception of taxation, according to which citizens pay a share of *their own* income to provide for the *common* expenses. The redistributionist view, by contrast, implies that the income obtained by individuals is not their own but that of the society as a whole. Hence, in assessing the rate of tax on an individual the government is deciding not how much of his own income it will require him to pay, but how much of the society's income it will allow him to keep. And if it allows its more productive citizens to keep a more than equal share of the national income, this is only because the government has decided that allotting unequal shares will promote a more efficient and more productive national economy—not because the more productive citizen is in any way *entitled* to a larger income.

Justifying redistribution

How can the redistributionist position be justified? On this question Jencks is not very helpful. The only theoretical support he offers for his egalitarianism is a brief paragraph arguing that equal incomes "maximize the satisfaction of the population" (later followed by the somewhat inconsistent assertion that "need should play a larger role than it now does in determining what people get back from society"). But in any case, arguments or assertions about the *desirability*, in the abstract, of a more equal society cannot by themselves suffice to establish the *justice* of income redistribution. We could doubtless achieve many desirable things with other people's money, but this does not mean that we have the right to take it from them. To justify income redistribution (as distinguished from a fair distribution of the tax burden), it is necessary to show that individuals somehow do not have a just title to the income they have earned —and that what individuals have "earned" (as Jencks would have it) therefore may rightfully be thought to belong to society as a whole.

Such an attempt to show that individuals do not have a valid moral claim to the income they have earned is made by Arthur Okun in his *Equality and Efficiency: The Big Tradeoff*. As the title of his work indicates, Okun is willing to allow the case for redistribution to be limited by the need for unequal incomes as an incentive for greater economic efficiency. Yet despite his moderate tone and his unabashed admiration for the efficiency of the market mechanism, Okun's arguments wholly undermine any moral basis for opposing the most thoroughgoing redistribution of income. He finds that "the ethical case for capitalism is totally unpersuasive," because he holds that the incomes that the market yields cannot be regarded as "fair" or "deserved."

Okun begins his discussion by citing the "so-called marginal-productivity theory of distribution," according to which a perfectly competitive market "will pay workers and investors the value of their contributions to output." He then points out that in the real world, various market imperfections prevent the distribution that would be yielded by a perfectly competitive market from being fully realized. At this point in the argument, some critics believe they have completely undermined the case for granting any ethical value to the distribution produced by real-world markets. Yet the critique founded on market imperfections implicitly assumes that marginal productivity is the true criterion of just distribution. Thus, the moral bearing of this critique seems to be, not that we should blithely override the distributional outcome of real-world markets, but that, in the interests of justice, we should strive to make those markets as competitive as possible.

Okun himself appears to realize the insufficiency of the critique based on market imperfections. Hence he proceeds to challenge the fundamental notion that rewards corresponding to contributions to productivity are fair or just. He launches this challenge by citing the problem of inequality of opportunity: The contributions that people are able to make are affected by the unequal material and cultural advantages that they derive from their family backgrounds; therefore, competition in the marketplace is unfair in the same way as a race in which the contestants are not assigned equal positions at the starting line.

The question of whether and to what extent inequality of opportunity vitiates the justice of unequal rewards is a complex and difficult one. But inequality of opportunity is not the fundamental ground on which contemporary advocates of redistribution like Okun choose to rest their case. And it is easy to see why. For just as the critique based on market imperfections implicitly assumes the justice of rewards distributed by a perfectly competitive market, so the critique based on inequality of opportunity implicitly assumes the justice of market rewards insofar as equality of opportunity prevails. That is, it assumes that once the starting positions for all contestants are made equal, justice requires that rewards be given according to how well one performs in the race. Hence this critique suggests that the best way to achieve economic justice would be through a strategy aimed at eliminating the factors that make for an unequal start (the strategy that animated much of the Great Society). Any attempt to correct for the effects of inequality of opportunity simply by redistributing income from high earners to low earners inevitably would unjustly penalize or reward many individuals—those who achieved high earnings despite lesser opportunities and those who wound up with low earnings despite greater opportunities. Moreover, *since even the wholesale elimination of inequality of opportunity would achieve only a relatively small reduction in the overall inequality of income,*[1] *the critique based on inequality of opportunity could in any case justify no more than a rather modest redistribution of income.*

[1] Jencks and his colleagues offer the following conclusion: "Our best estimate is that family background explains around 15 percent of the variation in incomes. . . . This implies that even if America could reduce inequalities in opportunity to the point where they were no greater than those that now arise between one brother and another, the best-paid fifth of all male workers would still be making 500 percent more than the worst-paid fifth. We cannot, then, hope to eliminate, or even substantially reduce, income inequality in America simply by providing children from all walks of life with equal opportunity. When people have had relatively equal opportunity, as brothers usually have, they still end up with very unequal incomes."

Thus the full-fledged redistributionist must attempt to show that even if there were complete equality of opportunity, with every competitor enjoying an equal start, it would not be just to reward the swift and the determined for their superior performance in the race. And to do this it is necessary to explain why the two chief characteristics that enable some to "run" better than others—namely, superior ability and superior effort—do not entail a legitimate claim to the fruits of the successes they bring. Okun's discussion of the moral status of what he calls "natural abilities" is rather sketchy, but his view seems to be the following: People's natural abilities are the product of the genes they inherit from their parents; but these are in no way "earned" by individuals, and hence they cannot be regarded as deserved; therefore those who receive superior genes enjoy an undeserved and unfair advantage over their less fortunate fellows. From here Okun leaps to the conclusion that "society should aim to ameliorate, and certainly not to compound, *the flaws of the universe*. It cannot stop rain, but it does manufacture umbrellas. Similarly, it can decide to restrict prizes that bestow vastly higher standards of living on people with greater innate abilities" (italics mine).

It is worth stopping to consider for a moment the bizarre metaphysical doctrine that is expressed in this passage. The universe is held to be flawed because some human beings are born with greater innate abilities of various kinds than other human beings possess. The clear implication is that the universe would be much improved if the existing distribution of innate abilities were replaced by a situation in which the innate abilities of all human beings alike were reduced (or increased) to the level of the current mean. It is hard to believe that Okun would really consider such a condition of universal human mediocrity—where there were no great scientists, or artists, or economists, or athletes, or statesmen—preferable to the "universe" that actually exists. A more likely and more charitable interpretation of this passage is that Okun was led to overstate his position by a momentary excess of egalitarian zeal. A bit later in his discussion Okun cites John Rawls' elaboration of the "principle of redress." Indeed, by turning to Rawls we can see a much more coherent statement of the viewpoint that Okun is here trying to present.

John Rawls' *A Theory of Justice* is the most ambitious and sophisticated attempt to provide a theoretical justification for the redistributionist view. And the foundation of Rawls' entire theoretical structure is the premise that greater natural talent or ability cannot provide a moral claim to greater desert or reward. Unlike Okun, Rawls recognizes that the "natural distribution [of talents] is neither just nor unjust"; it is simply a "natural fact." What he stresses, however, is that "inequalities of birth and natural endowment are *undeserved*" (italics mine). Because these differences in natural ability are undeserved, they are said to be "arbitrary from a moral point of view." Instead of exclaiming against the "flaws of the universe," Rawls speaks more reasonably and precisely of the "arbitrariness found in nature" or the "arbitrariness of the world." But the conclusion he draws from this is essentially the same as Okun's: Since superiority in natural ability is undeserved and hence arbitrary, justice calls not for rewarding those endowed with superior ability but for compensating those endowed with lesser ability.[7] In short, the redistributionist view is based on supplanting an *ethics of reward* in favor of an *ethics of redress.*

Effort

Before examining the claim that the arbitrariness of the distribution of natural ability justifies an ethics of redress, let us first consider how Okun and Rawls deal with the other human characteristic that allows some men to make a greater contribution to produc-

[7] It is worth noting that, despite the very different nature of his conclusions, Rawls shares to a surprising degree the premises of such notable champions of the free market as Friedrich Hayek and Milton Friedman. Like Rawls, Hayek and Friedman both assert that superior natural ability is undeserved and hence can generate no *moral* claim to superior reward. In part, they use this argument because they wish to defend inherited wealth by showing that inequality deriving from the inheritance of property is no *less* defensible than inequality deriving from the inheritance of superior natural ability. But in Hayek's case at least, this also points toward a further agreement with Rawls—namely, that the distribution of income in a market economy can in no way be understood as rewarding moral merit or desert. Rawls concludes from this that the market distribution lacks any ethical standing and thus should be overridden by government to promote greater equality. Hayek, while also holding that the market distribution has no ethical validity, opposes in the name of individual liberty any such attempt at governmental redistribution.

Hayek is quite explicit in asserting that the distribution of income in a "free society" cannot be defended in terms of correspondence between merit and reward, or indeed on the basis of any notion of distributive justice at all. (Hence Hayek's own defense of the free society is founded not upon considerations of justice, but upon considerations of freedom and efficiency.) I believe that this view is not only mistaken, but is bound to leave liberal capitalism morally disarmed in the face of redistributionist assaults like those of Okun and Rawls. This is not to deny, of course, that there are serious problems involved in attempting to provide a satisfactory moral justification for the distribution of income in a liberal society. But such a task, which would require a great deal more than a refutation of the redistributionist critique, far exceeds the scope of this article.

tivity than others—namely, effort. Okun begins his discussion of effort sensibly enough:

> Differences in incomes that are associated with differences in effort are generally regarded as fair. If everyone were offered the same hourly wage rate and the opportunity to work as many hours as he or she chose, the resulting discrepancies on payday would be understandable. In fact, it would seem unfair for the person who takes more leisure to get just as much income. Leisure is a form of income and an element in one's standard of living; thus, a sacrifice of leisure must be compensated in other ways if fairness is to be achieved.

But he then proceeds to muddy the waters with his subsequent paragraph:

> Extra income for extra effort is unquestionably useful in providing incentives as well as fair compensation for parting with leisure. The two roles are hard to disentangle. When the fairness issue is viewed in a broad and searching context, some difficult questions arise. Shouldn't society be capable of tolerating diverse individual attitudes toward work and leisure? Would society really want to starve those who might conceivably have lazy genes? Suppose for a moment that incentives are not relevant. If the total input of effort were completely unaffected, would society want the beachcomber to eat less well than his fellow citizens, including others who do not work, such as children, the elderly and students on fellowships?

It is hard to find in this "broad and searching" view any principle that casts serious doubt on Okun's earlier contention that fairness requires greater rewards in return for greater effort (or a greater sacrifice of leisure). Society is likely to be capable of "tolerating diverse individual attitudes toward work and leisure" precisely to the extent that it is not expected to reward them equally. One hesitates to believe that Okun means his remark about "lazy genes" to be taken seriously; but in any case, the world has probably never seen a human being whose genes were so lazy that he chose to starve rather than to make an effort to earn a living. As for Okun's final question, all modern societies—capitalist, socialist, or whatever—do hold that men who possess the capacity and opportunity for productive (or otherwise useful) work yet refuse to perform it have no moral claim upon the society's resources. And he has offered no argument that would establish such a claim independently of work or effort.

Despite all the attention he gives to society's distribution of income and wealth, Rawls has almost nothing to say about the human effort that produces them. At one point, however, he puts forth a somewhat more refined version of Okun's "lazy genes" argument:

". . . [I]t seems clear that the effort a person is willing to make is influenced by his natural abilities and skills and the alternatives open to him. The better endowed are more likely, other things equal, to strive conscientiously, and there seems to be no way to discount for their greater good fortune." Consider the consequences of this claim that the willingness to make a greater effort is as undeserved as greater natural ability. For it would imply that greater effort, like greater natural ability, has no moral claim to greater reward; instead, according to the ethics of redress, lesser effort, like lesser natural ability, is entitled to be compensated (or, in effect, rewarded). Thus the person who works harder is entitled to nothing more, while the person who works less hard gains a greater claim over what others have produced. The moral absurdity of this view is transparent.

Rawls is able to deny the moral connection between effort and material rewards only *by ignoring the fact that income and wealth are not simply "there" to be distributed, but are produced in the first place only by human effort.* Labor or effort is the human cost of material benefits. And, all other things being equal, it is clearly unfair to distribute equal benefits to those who have borne unequal costs. So even a community that decided to apply the principle of redress in regard to unequal natural abilities would justly insist that equal rewards be allotted only on the basis of equal efforts. (In Okun's words, "If everyone were offered the same hourly wage rate and the opportunity to work as many hours as he or she chose, the resulting discrepancies on payday would be understandable. In fact, it would seem unfair for the person who takes more leisure to get just as much income.") And if such a community (whether a commune, or a kibbutz, or a political society, or persons in Rawls' "original position") determined to share its material benefits in common, it would undoubtedly require that its members also assume a fair share of the common labor.

Natural ability

Neither Okun nor Rawls, then, succeeds in discrediting the proposition that those who are more productive because they make greater efforts deserve, all other things being equal, to enjoy greater material rewards. But now we must consider the claim of those who are more productive because they are blessed with greater natural ability. Let us take the case of two men living in what economists refer to as a "Robinson Crusoe economy" (and philosophers have called a "state of nature"). Now suppose that each of these men expends equal efforts in constructing a dwelling for himself; but due to their differing natural abilities as builders, one produces —and thus is able to live in—quite a comfortable habitation, while the other produces an adequate but less desirable shelter.[9] In such a case, wealth would be unequally "distributed" (by nature itself) according to "undeserved" differences in natural ability. Here is a clear instance of what Rawls means by the "arbitrariness found in nature." But what possible moral justification could there be for redressing this natural distribution, or holding that the less talented man is entitled to a share of the rewards earned by the more talented? And if such a justification does not exist in a "Robinson Crusoe economy," at what point of increased complexity in men's economic, social, or political relations does it suddenly become valid?

Rawls never answers this question with any precision; but by basing his doctrine on a version of the social-contract theory (an agreement that "free and rational persons concerned to further their own interests would accept in an initial position of equality as defining the fundamental terms of their association"), he implies that the crucial change comes about when men enter political society. The agreement that underlies a just political society, according to Rawls, will include adherence to the "difference principle," which as he formulates it specifies that "social and economic inequalities are to be arranged so that they are to the greatest benefit of the least advantaged . . ."

Now, Rawls says of the difference principle that it "represents, in effect, an agreement to regard the distribution of natural talents as a common asset and to share in the benefits of this distribution whatever it turns out to be." This "collectivization" of individual natural talents is obviously of material advantage to the less talented, but how can it be considered fair to the more talented? Rawls' answer essentially boils down to repeating his assertion that the more talented do not deserve their greater natural gifts in the first place;

[9] This example is, of course, intentionally constructed in such a way that the man with lesser natural ability is not incapable of providing for his needs in a minimally acceptable fashion. This fits Rawls' argument for redistribution, which is based not on need but simply on inequality. If there were a case of genuine neediness—for example, if there were a third man in the neighborhood who was crippled and unable to build a dwelling for himself at all—it might be argued that the others would have a moral obligation to assist him. In that case, the individual's right to the fruits of his own labor would have to be balanced against his obligation to others. But this would in no way invalidate the general principle that the rewards that flow from superior natural ability are deserved.

hence they have no cause for complaint. But why do these undeserved natural talents, whose consequences are unobjectionable in a state of nature, require rectification or redress in political society? The closest thing one finds to an answer to this question is the following passage:

> But there is no necessity for men to resign themselves to these contingencies [i.e., the arbitrary distribution of natural talents]. The social system is not an unchangeable order beyond human control but a pattern of human action. In justice as fairness men agree to share one another's fate. In designing institutions they undertake to avail themselves of the accidents of nature and social circumstance only when doing so is for the common benefit.

What Rawls seems to be saying here is that in political society men are not bound by the arbitrary dispensations of nature precisely because they have the power to alter them, or at least their effects. Men can collectively design the institutions and implement the conception of fairness that *they* choose. And that conception of fairness need not be based on a consideration of men as nature has actually made them; instead, it can and should be based on a consideration of men that abstracts from the differences that nature has established among them. Social justice cannot take its guidance from human nature. It must improve upon and correct nature, by taking a moral starting point which is above or prior to the arbitrariness of the real world.

Is it possible, however, for human justice ever to attain a starting point that is totally free of the arbitrariness of the world? Rawls himself is forced to confront this problem when he poses the question whether our conduct toward animals should be governed by his principles of justice. (For after all, is it not merely a contingent fact of nature that we are born human beings rather than members of some other species?) Rawls' answer is that human beings, as opposed to other living things, are entitled to equal justice because they possess the "capacity for moral personality." Having or not having this capacity is said to be the "only *contingency* which is decisive" in determining who is entitled to just treatment. Moreover, the common possession of this capacity by all men constitutes the basis of human equality, which thus is "supported by the general *facts of nature*." At the deepest level of his own theory, then, Rawls in effect concedes the impossibility of wholly pushing beyond the limits imposed by brute natural facts. For the underlying human egalitarianism of Rawls' doctrine cannot itself escape being founded on what is arbitrary and contingent.

Equality vs. the family

We may say, then, that Rawls takes as the Archimedean point of moral reasoning that arbitrary natural fact which makes human beings equal to one another and superior to other living things; but he then arbitrarily refuses to grant any moral status to those arbitrary natural facts that distinguish one human being from another. Yet Rawls and his fellow redistributionists fail even to draw the radical conclusions that their own premises imply. One good example of where a rigorous application of these premises leads is provided by the Greek comic poet Aristophanes in his *Assembly of Women* (*Ecclesiazusae*). This play tells the story of the takeover of Athens by a female government, which establishes a new egalitarian order featuring a community of property, women, and children. But when it is objected that such a scheme will lead all the men to line up before the beautiful women and neglect the others, Praxagora, the female lawgiver, responds with a decree requiring that a man sleep with an ugly woman before being permitted to sleep with a beautiful one. This decree is an almost perfect embodiment of Rawls' difference principle, inasmuch as it stipulates that the naturally favored women may benefit only when their doing so benefits the disadvantaged as well.[4]

This Aristophanean conceit raises the question of why Rawls does not extend the application of the difference principle to the distribu-

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[4] There is at least one other discussion in Ancient literature of the application of the ethics of redress to sexual matters. In Book I of the *Histories*, Herodotus describes an "ingenious" custom of the Babylonians:

> In every village once a year all the girls of marriageable age used to be collected together in one place, while the men stood round them in a circle; an auctioneer then called each one in turn to stand up and offered her for sale, beginning with the best-looking and going on to the second best as soon as the first had been sold for a good price. Marriage was the object of the transaction. The rich men who wanted wives bid against each other for the prettiest girls, while the humbler folk, who had no use for good looks in a wife, were actually paid to take the ugly ones, for when the auctioneer had got through all the pretty girls he would call upon the plainest, or even perhaps a crippled one, to stand up, and then ask who was willing to take the least money to marry her—and she was knocked down to whoever accepted the smallest sum. The money came from the sale of the beauties, who in this way provided dowries for their ugly or misshapen sisters.

With its emphasis on monetary compensation, this scheme is much more in the spirit of Rawls' own thinking. Moreover, the notion of monetary compensation for natural disadvantages suggests a whole new avenue for applying the ethics of redress. Those who are born blind, or crippled, or mentally impaired might be made the beneficiaries not merely of programs designed to meet their special needs but of monetary grants to indemnify them for the psychic pain caused by their undeserved misfortune. Society would then be organized as a kind of insurance scheme against Divine malpractice—an arrangement that would appear a logical outgrowth of Rawls' principles.

tion of sexual rewards. If the distribution of natural gifts is to be regarded as a "common asset" whose benefits are to be shared by all, why should those human beings who are beautiful or otherwise well endowed be allowed to enjoy the "undeserved" sexual benefits that flow from those qualities arbitrarily allotted to them by nature? And why shouldn't those who have the misfortune to be born ugly be compensated according to the dictates of the "ethics of redress"?

And what about children, the products of sexual union? In a society composed of families, there are some couples that very much desire to have children but are unable to have any, while other couples enjoy an abundance of children. Why aren't the "undeservedly" childless couples entitled to be compensated for their arbitrary misfortune by being given some of the children of the more prolific? Again, why not go further still? Because of genetic inheritance, parents with greater natural advantages tend also to have children with greater natural gifts, and thereby to enjoy the greater satisfaction that more talented children often bring. Why not, then, distribute children in such a way as to eliminate the impact of this "undeserved" benefit? But even an impartial distribution of children among all sets of parents would leave those children who were placed in "better" homes undeservedly and unfairly favored over those who were placed in "worse" homes. Only the abolition of the family as an institution for raising children would appear capable of meeting the Rawlsian standard of fairness.

At one point in *A Theory of Justice*, after noting that "the family will lead to unequal chances between individuals," Rawls explicitly poses the question, "Is the family to be abolished then?" His answer: "Taken by itself and given a certain primacy, the idea of equal opportunity inclines in this direction. But within the context of the theory of justice as a whole, there is much less urgency to take this course."[8] And of course Rawls chooses not to take this course. Like his fellow redistributionists, he does not seem to be disturbed by "undeserved" inequalities in the sphere of marriage and the family except insofar as these are productive of inequalities of income and wealth. And even where such inequalities of income and wealth do result, the Rawlsian strategy is not to attempt to eliminate their causes but rather to attempt to mitigate their effects (through redistribution). The hallmark of the radical rejection of inequality

[8] There is also a rather cryptic passage in *A Theory of Justice* in which Rawls indicates that the difference principle would call for an active eugenics policy. Since the implications of this passage are so unclear, it is difficult to tell to what extent the eugenics policy Rawls has in mind would lead to social regulation of marriage and childbearing.

since Aristophanes has been the call for a community of property, women, and children. But despite the radical egalitarianism of their ethical premises, our present-day redistributionists want no part of communism. Not only are they perfectly content to leave the "bourgeois" family intact, but they even shrink from advocating a community of property. Indeed, even their call for redistribution falls far short of a demand for equality of income or wealth.

Equality vs. wealth

Why are our redistributionists so "moderate" with respect to their agenda for egalitarian political reform? The answer is to be found by investigating the principle that they accept as permitting (or requiring) a justifiable limitation on redistribution toward complete equality. In Okun's case, the opposing principle is clearly stated in the very title of his book—*Equality and Efficiency: The Big Tradeoff*. It is for the sake of economic efficiency that Okun is willing to stop far short of attempting to achieve complete economic equality. But why should we be so concerned about economic efficiency? Okun explains the justification for making this "tradeoff" as follows: "In pursuing such a goal [i.e., complete economic equality], society would forego any opportunity to use material rewards as incentives to production. And that would lead to inefficiencies that would be harmful to the welfare of the majority. Any insistence on carving the pie into equal slices would shrink the size of the pie." Thus economic efficiency is to be valued because it increases "the welfare of the majority." And welfare is to be measured, it appears, in strictly economic terms—a larger slice (in absolute terms) of "economic pie" constitutes greater welfare.

In fact, then, Okun's "big tradeoff" is really an exchange between equality and *wealth*. The pursuit of economic equality is to be compromised or abandoned when it would lead to unacceptable reductions in most people's wealth. But as Okun presents it, there is a strange imbalance between the two sides of his tradeoff equation. Equality is presented as an ethical principle, while efficiency (or wealth) is treated merely as a practical or pragmatic consideration. It is a curious sort of moral reasoning that allows practical considerations to be weighed equally in the balance with ethical ones. We would hardly approve of the conduct of an individual who was just only when acting justly was compatible with preserving his wealth. Why should we be any more approving of a society that acts in this way?

Here again we can find a more sophisticated justification of Okun's essential position by turning to Rawls. The grounds on which Rawls legitimizes stopping well short of complete economic equality are internalized in his "difference principle" (which forms part of his second principle of justice). As noted earlier, the difference principle requires that "social and economic inequalities are to be arranged so that they are to the greatest benefit of the least advantaged." What Rawls means by this is that departures from the standard of equal distribution of economic goods are permissible only if they make the least advantaged (i.e., poorest) man wealthier than he would be if the distribution were made more equal. The way an unequal distribution can achieve this result is by offering incentives that promote productivity and thereby increase the size of the society's total economic product. So for Rawls, as for Okun, economic justice ultimately comes down to a tradeoff between equality and wealth (though Rawls makes the focal point of the tradeoff the least advantaged members of the society rather than the majority or the society as a whole).

In the structure of Rawls' theory, the goal of maximizing individual wealth is actually prior to the goal of equality. For Rawls' principles of justice are conceived of as those principles that would be chosen in a hypothetical "original position" by "free and rational persons concerned to further their own interests." Through the device of a "veil of ignorance," Rawls imposes strict limits on the knowledge available to the parties in the original position, but one thing they do know is that they wish to maximize their share of certain "primary goods," including wealth. So from their very inception, the Rawlsian principles of justice have as an essential aim the maximization of individual wealth. (The initial standard of equal distribution, and its subsequent modification to allow those inequalities that improve the economic position of the least advantaged, are supposedly chosen only because no one is allowed to have any indication of what his own position in the distribution will be, and thus no one wants to take a chance on being too badly off in the event that he should happen to come out at the bottom of the income ladder.)

The priority of the goal of maximizing individual wealth over the goal of economic equality is strikingly reflected in the practical consequences yielded by an application of the difference principle. Let us take the example of a society that enforces strict economic equality and where everyone has an income of $5,000. Now let us assume that by allowing some people to earn up to $25,000, we will increase productivity and total output to a point where even the poorest members of the society have an income of $6,000. And then suppose that by increasing the maximum allowable income to $1 million, we increase the income of the poorest members of the society to $6,100. Each of these steps away from economic equality would be justified by the difference principle. Indeed, that principle would justify the most enormous income inequality if it were to produce merely the tiniest increment in the income of the poorest class. So there can be no doubt that for Rawls (as for Okun) economic equality has only the most subordinate status when weighed against the maximization of wealth.

It is only in this light that one can properly appreciate the extraordinary role played in Rawls' theory of justice by economic incentives. Recall that Rawls absolutely refuses to allow that those who make a greater economic contribution *deserve* greater economic rewards. Yet his difference principle nonetheless affirms that it is *just* to grant them greater economic rewards insofar as these serve as indispensable incentives to increase their contributions in ways that ultimately benefit the disadvantaged. In other words, according to Rawls justice requires that the more productive receive rewards *that they do not deserve.*

This points to the profound inconsistency that besets the redistributionist position in its attempt to embrace simultaneously both radically egalitarian ethical premises *and* economic incentives. To deny that individuals deserve to enjoy the fruits of their efforts and natural abilities is to deny that powerful principle of human justice which holds that each is entitled to what is his own.[6] It is hardly less radical a denial of the right to one's own than would be the taking away from parents of their own children. And as such, it entails the most extreme sort of invasion of the private sphere and the rights of the individual in the name of the public and communal good.

The denial of this principle would be understandable in a doctrine that, aiming at a profound transformation of human nature, sought to erase men's attachments to what is private and to refocus them

[6] It is the right to what is naturally one's own that John Locke, the pre-eminent philosopher of liberalism, holds to be "the great foundation of property": "... [E]very man has a property in his own person; this nobody has any right to but himself. The labor of his body and the work of his hands, we may say, are properly his." This, of course, is precisely what Rawls and Okun deny. They would presumably correct Locke along the following lines: "No man has a property in his own person; this everybody has an equal right to along with himself. The labor of his body and the work of his hands, we may say, are properly the society's as a whole."

wholly upon the public (whether in the benign manner of the Israeli kibbutz or the barbaric manner of Pol Pot's Cambodia). But this is surely not the kind of thing our redistributionists have in mind. Their devotion to maximizing individual wealth and their consequent championing of economic incentives are inevitably calculated to foster self-interest and attachment to private goods. In this light it is not surprising that Rawls turns out to be almost as great an admirer of economic efficiency and of markets as Okun is. The prevailing spirit of both of their doctrines is profoundly bourgeois and capitalistic. Indeed, one suspects that both their hope and their expectation is that a society structured in accordance with their principles would not be terribly different from the United States as it is today. They want all the benefits that come from a bourgeois liberal democratic order, but merely wish to improve upon it through a kind of egalitarian "fine-tuning" aimed at bringing about a more equal distribution of income and wealth.

Individual rights and liberal society

Yet the moral basis of Rawls' and Okun's economic egalitarianism is incompatible with, and destructive of, the moral basis of a liberal society. The moral and political tradition that animates liberal democracy is founded on the notion that the rights of the individual are prior to the claims of society—indeed, that the protection of those individual rights is the very goal of political society. Liberalism does not merely recognize that principle of justice which holds that each man is entitled to what is his own; it seeks to extend and exalt this principle, imparting to the private sphere a sanctity far greater than it enjoys in any other political doctrine. Liberal society leaves each man free to devote himself to the pursuit of his own happiness; in particular, it promotes the pursuit of economic self-interest. In Locke's phrase, it aims "by established laws of liberty to secure protection and encouragement to the honest industry of mankind . . ." And the bedrock moral premise of a liberal society is that those who devote themselves to "honest industry" are entitled to reap—in the form of private property—the economic rewards that it brings.

By contrast, the redistributionist view, in holding that individuals do not deserve the economic rewards that are the fruit of their own talents and efforts, and that the goods produced by their "honest industry" are instead the "common asset" of society as a whole, totally undermines the moral foundations of private property, and therewith of liberal society. And the consequences of such a view are not merely theoretical ones. As Jencks makes clear, the redistributionist position requires that society "politicize the question of income inequality." For if individuals have no moral claim to the private property they obtain, it is up to the government to decide how it should be distributed. Now, it would be one thing if, under the new dispensation, the distribution of income and wealth were to be determined by a benevolent despot applying the "difference principle" and carefully weighing the longer-range benefits that would accrue from varying degrees of economic incentives. But in a democracy, distributional decisions will be the subject of the most intense political controversy, with each citizen in effect casting a vote about how large his own share of the society's income and wealth should be. And since the potentially adverse long-range effects of reducing incentives will necessarily remain speculative, there is likely to be a tendency to cut down the share of the better off first and worry about incentives later.

Moreover, if people really come to believe that no one deserves the income he earns, the case for incentives by itself is bound to look morally suspect, particularly when it is a question of increasing them. To argue that those who are already better off should be granted still greater incentives to make them produce more will then resemble arguing that the rich should be given a wholly undeserved bribe paid out of the pockets of the poor. Under such circumstances, it would not be at all surprising if the poor decided that even if their own incomes were to suffer (from the general loss of productivity), they would prefer this to paying so offensive a bribe. (One cannot extrapolate from the relative self-restraint shown by democratic governments in similar matters today, because that self-restraint is in large part precisely a product of the belief that individuals do deserve what they earn and that taxes are a necessary evil rather than a mechanism for redistribution.) In any case, just the uncertainty about the safety of one's wealth and the prospects of one's future income caused by the politicization of the distributional issue would be bound to have a deleterious effect not only on incentives but also on the general feeling of political and economic security enjoyed by the citizenry. In this sense, at least, the shelter of the private sphere would be severely threatened.

But this is far from being the only danger to the private sphere implicit in the redistributive ethic. Jencks says that in order to have redistribution we must "alter people's basic assumptions about the extent to which they are responsible for their neighbors and their neighbors for them." He presumably has in mind here primarily a heightening of people's feelings of mutual solidarity and benevolence. Yet so long as the maximization of people's wealth remains a fundamental goal of the society, it is likely that their feelings of reciprocal responsibility will take a less attractive form. For if the society's wealth is regarded as a common product of which everyone is entitled to a generous share, the economic well-being of each individual becomes directly dependent upon the behavior of his fellow citizens.

In the first place, this is likely to lead to heightened public concern about who is admitted to citizenship. It is one thing for a c ıntry to accept unskilled immigrants (say, Vietnamese refugees) when it is essentially up to them to "make it" economically on their own; but it is a very different matter if they are immediately and perpetually entitled to draw upon a sizable share of the society's resources. Similarly, fears about adding to the number of unproductive people in the society could lead to attempts to restrict childbearing on the part of those who are thought incapable of raising children to be useful contributors to the nation's wealth. Moreover, there would be a strong tendency for the public to impose some work requirements upon those living off the common wealth without making what is deemed an adequate contribution of their own efforts. Or there might be an attempt to regulate the ways in which the beneficiaries of redistribution spend their money (designed, for example, to make sure they do not buy luxury items while stinting on the needs of their children). Public money is seldom disbursed without any strings attached, and if everyone comes to be viewed as a recipient of society's benefactions, it is only to be expected that they will be subjected to greater public accountability regarding the details of their private lives. In short, it is difficult to see how the private sphere can retain its autonomy when wealth is regarded as communal. The practice as well as the premise of redistribution would be incompatible with liberal society as we know it.

A final word

By way of conclusion, it is worth re-emphasizing the vital distinction between redistribution and social-welfare programs. Social insurance and assistance to the needy can be regarded as legitimate functions of the public sphere, properly supported by public revenues. The obligation of citizens to pay taxes to finance the legitimate expenses of government has never been doubted by the liberal tradition. Financing public-welfare expenditures with tax dollars in no way conflicts with the notion that people have a right to what they earn, and that their own property is genuinely private. But as social programs grow larger and more complex, it is all too easy to make the mistake of regarding redistribution as a logical extension of—or even simply a way of rationalizing—the welfare spending of the liberal state. This is an error to which economists are particularly prone, given their penchant for focusing on economic effects (i.e., how much is being transferred to whom) rather than political principles (i.e., on what grounds the money is being transferred). Yet there is an immense gulf of principle between the welfare state and the redistributive state, which can be crossed only at the gravest peril to a liberal political order.

Goals and Purposes of Social Welfare Expenditures

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ABSTRACT

Beginning with a brief examination of the dominant themes that have emerged from a century of social welfare policies, the paper examines present-day controversies over the appropriate course for welfare reform. It examines the conflicting goals of current social welfare expenditures in light of the continuing discussion of the equity-efficiency trade offs involved in particular income distributional and employment policies, considers the role of taxation in achieving social welfare goals, and looks at the broader social purposes that should motivate welfare reform.

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Goals and Purposes of Social Welfare Expenditures

In this paper I examine welfare reform in the context of social welfare expenditures (SWE). Both terms have a variety of definitions--there is no universally accepted, standard usage. Below, we use the term "SWE" to cover what Ida C. Merriam, formerly of the Social Security Administration, originally defined as

> cash and medical benefits, services, and administrative costs for all programs operating under public law that are of direct benefit to individuals and families. Included are programs providing income maintenance and health benefits through social insurance and public aid, and those providing public support of health, education, housing and other welfare services.[1]

Social welfare expenditures came to $394 billion in 1978. They were equal in amount to 19.3% of GNP. (Cash transfers are, of course, not part of GNP.) Table 1 shows that since 1950 these expenditures by the federal, state, and local governments have risen much faster than GNP. In fact, they have more than doubled as a percentage of GNP in the past three decades. The principal categories of expenditures that they subsume are "social insurance," and "education." Social welfare expenditures now amount to 60% of all combined government expenditures.

"Welfare," it appears, is used by many writers to cover some or all of the expenditures classified in Table 1 as public aid, and other social welfare, as well as public housing. These three classifications

Table 1

Social Welfare Expenditures Under Public Programs as a Percentage of GNP, Selected Fiscal Years 1950-1978

Fiscal Year	Gross national product (in billions)	Total	Total[a] Federal	State-Local	Social Insurance	Public Aid	Health & Medical Programs	Veterans' Programs	Education	Other Social Welfare	Total Health & Medical Expenditures
1950	$264.8	8.9	4.0	4.9	1.9	0.9	0.8	2.6	2.5	0.2	1.2
1955	379.7	8.6	3.9	4.7	2.6	.8	.8	1.3	2.9	.2	1.2
1960	498.3	10.5	5.0	5.5	3.9	.8	.9	1.1	3.5	.2	1.3
1965	658.0	11.7	5.7	6.0	4.3	1.0	.9	.9	4.3	.3	1.4
1970	960.2	15.2	8.1	7.1	5.7	1.7	1.0	.9	5.3	.4	2.6
1974	1,361.2	17.6	10.1	7.5	7.3	2.3	1.1	1.0	5.2	.5	3.0
1975	1,452.3	19.9	11.5	8.4	8.5	2.8	1.2	1.2	5.6	.5	3.5
1976	1,625.4	20.4	12.1	8.3	9.0	3.0	1.2	1.2	5.4	.6	3.6
1977[c]	1,838.0	19.7	11.9	7.8	8.8	2.9	1.1	1.0	5.1	.5	3.7
1978[c]	2,044.0	19.1	–	–	8.6	2.9	1.2	1.0	5.0	.5	3.7

[a]Includes housing, not shown separately.

[b]Combines health and medical programs with medical services provided in connection with social insurance, public aid, veterans' services, vocational rehabilitation, and antipoverty programs.

[c]Preliminary estimates.

Sources: Alma McMillan, "Social Welfare Expenditures under Public Programs, Fiscal Year 1977," Social Security Bulletin, June 1979, p. 10, Table 3; Social Security Administration, Research and Statistics Note No. 2, Feb. 14, 1980.

accounted for 2.9%, .5%, and .1% of GNP, respectively, in 1978. However, some writers use the term more narrowly to mean only the cash benefits payable under Aid to Families with Dependent Children (AFDC) and General Assistance (GA). Supplementary Security Income (SSI) is also a cash benefit program but it has received less critical attention than the others because it, unlike the others, reaches those traditionally regarded as "the deserving poor," i.e., the aged, blind, and disabled. Cash benefits under these three programs amount to about 1% of GNP.

Table 2 shows more detail about what may or may not be counted as welfare. All of these expenditures are funded out of general revenues, unlike social insurance, which is largely paid for out of payroll taxes. Most of them are targeted to lower income people, and many are income- or means-tested. Only about a third of these expenditures take the form of cash benefits. A larger part is used to provide health care, food, and housing. (Note that Medicaid is the largest single welfare program.) The remainder is largely devoted to a range of social services from counseling to day care to training (note the overlap with education).

Goals of Welfare Reform

Welfare reform is another term which lacks a precise and agreed upon meaning. Undoubtedly the most famous of many reform efforts was that which led to adoption of a new poor law in early nineteenth century England. At that time, reform meant division of the poor into two groups, namely those expected to work and those not, and denial of "outdoor relief" for

Table 2

Expenditures for Public Aid, Public Housing and Other Social Welfare, by Type, 1977
(in billions of dollars)

Total	$64.8	
Cash	20.4	
AFDC and GA		$13.6
SSI		6.8
Health care	18.0	
Medicaid		17.6
Institutional care		.4
Food	8.7	
Food Stamps		5.4
Child nutrition[a]		3.3
Public housing	2.8	
Social services	5.8	
Nonmedical services		3.1
Chil Welfare		.8
Vocational Rehabilitation		1.3
Special OEO and Action programs		.6
Other public aid[b]	5.9	
Social welfare, n.e.c.[c]	3.2	

[a]Surplus food for schools and programs under National School Lunch and Child Nutrition Acts.

[b]Work relief, other emergency aid, surplus food for the needy, repatriation and refugee assistance, and work-experience training.

[c]Indian welfare and guidance, aging and juvenile delinquency activities, antipoverty and manpower training programs, day care, child services, legal assistance, care of transients, and other unspecified welfare services.

Source: Derived from Alma McMillan, "Social Welfare Expenditures under Public Programs, Fiscal Year 1977," Social Security Bulletin, June 1979, pp. 4-7, Table 1.

those in the first category and enforcement of responsibility of relatives to contribute to the support of those in the second category. This reform was in part a reaction to the alleged failure of a kind of negative income tax known as the Speenhamland scheme, which paid benefits to the working poor. The reaction emphasized the need to deter malingering and to encourage work and thrift.

On the other hand, welfare reform in the later years of that century came to mean separating out groups of the poor for special consideration. Criminals, mentally ill persons, orphans, widows, veterans, the aged, and the disabled were among those singled out for study, concern and legislation. This categorical approach to welfare guided the federal government in the United States when it adopted the public assistance and social services titles of the Social Security Act in 1935. Since that time we have seen several themes competing for the label of welfare reform. One theme has introduced new categorical programs to make existing welfare programs more generous and to allow more people to qualify for them. Some of these reforms have been accomplished by the courts in extending the Constitutional rights of due process and equal protection of the laws to welfare recipients. Others have come about through Congressional establishment of national minimums in specific programs, e.g., SSI, which was adopted in 1972.

A second theme of recent years has been to cut back on eligibility for welfare benefits by pushing for relative responsibility and work-tests. This theme is, of course, reminiscent of the previous century, but is

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focused this time on the AFDC program and its population of families headed largely by divorced and separated women. Unlike some earlier themes, this one carries the emphasis on work to the point of creating public jobs for those on welfare and of subsidizing child care to enable the welfare mothers to take the jobs.

The third theme to claim the title of welfare reform is distinct from the other two. It emerged in the 1960s under the flag of the negative income tax (NIT). It featured elimination of categories among the poor, a minimum income for all, including the "working poor" who were not eligible for AFDC, no work-tests, and a moderate benefit-reduction rate designed to avoid strong disincentives to work. Some enthusiasts of NIT saw it as a replacement for all existing cash and in-kind social welfare benefits. President Nixon incorporated some NIT ideas in his 1969 welfare reform package of SSI (which passed) and the Family Assistance Plan (which did not). The latter, FAP, deviated from a pure NIT in that it was categorical (it excluded single persons and childless couples as well as the aged and disabled persons eligible for SSI); it featured a work-test; it had a high benefit-reduction rate (FAP, food stamps, and other programs together produced a combined benefit-reduction rate of 70% or more); it was not strictly a cash program (it offered child day care services to working mothers); and it proposed to create public jobs.

With FAP, NIT became identified as a substitute for AFDC. As such, it emphasi[illegible] the second theme identified above. Alternatively, President Nixon could have designed NIT as a substitute for GA, the unemployed fathers

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segment of AFDC, and the minimum wage law. This would have meant a new categorical program for the working poor.

While the failure of FAP and the rejection of Senator McGovern's tax reform, which featured a $1,000 per person guarantee and a 33-1/3% benefit reduction rate, are often said to have signalled the demise of NIT, it is plausible to argue that its theme is not dead. It lives in SSI, the Food Stamp Program, the Basic Education Opportunity grant program, the earned income tax credit and other income-tested benefits.

It would appear that everybody is for welfare reform, but that there are contradictory ways to be a reformer. One is to create new categories of beneficiaries and new types of benefits and to make eligibility easier to attain. For some observers, the welfare explosion of the 1960s and early 1970s was the reform.[2] A second way is to tighten up on eligibility and to push people out into the world of work, even if this means creation special jobs. A third is to abolish the maze of special welfare programs replace them with a single cash benefit program based upon progressive income tax principles.

Clearly, the adversaries in this several-sided debate have different goals in mind. The first emphasizes compassion for the poor, who are seen as victims of systemic social and economic failure. The second highlights the loss of self-respect and withdrawal of potential labor time associated with welfare dependency. The third claims that the goal is to release the poor from paternalistic guidance and bureaucratic restrictions.

Goals of Social Welfare Expenditures

We said earlier that welfare programs are part of a broader pattern of SWE. The welfare programs listed in Table 2 in fact amount to only 16% of SWE. We may gain some new insights into the welfare reform controversies if we look at the goals and purposes of the larger system represented by SWE and the taxes levied to pay for it.

Economists are wont to characterize the purposes of public expenditures as pursuit of equity and efficiency. Government can presumably improve upon market outcomes by redistributing income and reallocating resources. Textbooks often relate equity gain to the reduction in inequality of the size distribution of income accomplished by expenditures and taxes. Efficiency has to do with gains in output associated with reallocations toward production of consumer goods most highly valued, and toward productive investments in physical and human capital. It is likely that there is a trade-off between equity and efficiency. Indeed, the lesson of economics is that there is no such thing as a free lunch.

It seems to be the general view of economists that SWE accomplish a considerable amount of redistribution but relatively little reallocation. That is to say, the distribution of final income--including nonmoney income--is less unequal than the distribution of market income, but the allocation of resources among goods and services is not much different than it would be if all SWE took the form of cash transfers. (For example, the consumption of food would be about the same if food stamps were converted to cash.) However, economists generally believe that SWE result in some loss of GNP because they increase the attractiveness of leisure and because the taxes paid to finance SWE reduce the capacity of people to save and thereby to increase the capital stock.

That particular formulation, which highlights the equity-efficiency trade-offs, is perhaps more prescriptive than descriptive of any nation's decisionmaking with reference to SWE. An alternative formulation is more inductive, based upon the record of announced purposes and of formulas of existing SWE programs and tax laws. In this approach the goals are thought to be revealed by legislative behavior. Thus the immediate goals of the American system of SWE would appear to be

- offsetting income loss
- helping people to buy essentials
- reducing income poverty
- sharing tax burdens fairly.

More than half of SWE in the United States are motivated by concern for losses of income associated with old age, disability, unemployment, and loss of a family breadwinner. This concern is not limited to those made poor by events beyond their control; the mere fact that income falls below its customary or expected level is deemed a sufficient basis for social intervention. Social insurance, which features contributions by workers and employers and benefits payable as a matter of contractual right, is a preferred method for offsetting loss. However, the same risks are also protected against by public assistance as a second level of defense. For example, an unemployed worker may receive unemployment insurance benefits first and public assistance benefits later. This goal is associated with the sharing of income loss during a recession, which may have the side effect of automatically stabilizing the economy.

Another substantial part of SWE is devoted to helping people buy essentials.[3] The leading example under this heading is public spending for education, which amounts to 5% of GNP (see Table 1). Free public education at elementary and secondary levels is provided as a civil right and funded out of general revenues. Parents are, of course, compelled to send their children of specific ages to school and hence must meet certain noninstructional costs of school attendance, including the forgone earnings of children, out of their own pockets. Higher education is typically not free, but governments may subsidize tuition and otherwise help students and their families meet the costs of going to college. Such help may or may not bear any relationship to financial need in the narrow sense, but it is given in recognition of the difficulties most families have in planning for--or borrowing for--the costs of college, and also in the faith that there are external benefits to be captured from encouraging more people to seek higher education.

The point about external benefits raises the question of whether the goal is simply to help people buy what they, as individual consumers, want, or whether the goal, and hence the standard for evaluation, is to provide education that will improve their capacity to produce. Should one count education benefits in the year the expenditure is made or in the year that extra income due to education is realized? Should health care expenditures be counted only if they result in lower mortality and morbidity? Interestingly, few writers ask whether one should count cash transfers only if we can prove that they make the recipients happier.

Similar considerations to those for education seem to underlie government expenditures for health care, which now amount to 3.7% of GNP, or about a third of total health care outlays. We appear to be moving toward the view that health care, like education, should be available as a civil right. On the other hand, housing and food are less touched by the civil right concept, but are apparently seen as essentials meriting public support. Social welfare expenditures for the latter two items combined amount to less than 1% of GNP and are highly concentrated on the poor. It is interesting that housing outlays make up a much larger part of SWE in some welfare states other than the U.S., e.g., the U.K. and Sweden.

The third immediate goal of American SWE is to reduce income poverty. This goal, enunciated by President Johnson in 1964, encourages a tilt of SWE in the direction of those people who fall below a recognized national minimum in terms of income. Hence, it requires us to ask whether SWE that offset income loss or help people buy essentials really do reach the poor as well as others. Can we design cash transfers to help those who have chronic low earnings but have not suffered an income loss? It also asks whether the programs we have traditionally addressed specifically to categories of the poor are the best possible. Can the whole range of SWE be managed so as to contribute, along with growth in pretransfer income, to year by year reduction in the number of Americans with below poverty line incomes? At present, almost 40% of SWE, that is, about $150 billion worth of the goods and services as well as the cash transfers provided under these public programs, go to people whose pretransfer money income is below the poverty line in the year of receipt. The 20% of persons in the latter group, who receive about 2% of pretransfer money income, receive about 10% of total income, defined to include all SWE.[4]

These numbers about the pro-poor incidence of benefits should be taken with a grain of salt. There is what we may call a secondary beneficiary in many cases, that is, a person who would have made a private payment to the poor beneficiary if the public program did not exist. For example, an elderly person might have been supported by his adult children, who may or may not be poor. The calculations above use as the counterfactual a world with no private transfers and thus show more redistribution toward the poor than may be credible.

A critic may ask, are we sure that the number of posttransfer poor is less than it would be if SWE were only half as great, that is $1,500 per pretransfer poor person instead of the present $3,000? That question is not easy to answer because it requires assumptions about behavioral responses to the availability of SWE benefits and to the "poverty trap," or high benefit-reduction rates (which are particularly severe for the poor) associated with those benefits.

One of the long-standing debates in this field is whether you can get people out of poverty by "helping" them, or whether you need to induce or coerce them out of "the culture of poverty" by what Sidney and Beatrice

Webb called "the exercise of plastic power." There can be no doubt that the coercive approach to poverty is still followed to some degree, but it is less popular than it once was.

We now move to the fourth immediate goal of the SWE system, namely sharing the tax burden fairly. Inductive inquiry into the goals of the American tax system leads to the finding that we appear to want a set of combined tax rates that are roughly proportional throughout most of the posttransfer income range. Progressivity does not begin short of the top 5% or so of income receivers, according to the consensus view of tax incidence. (However, if one holds that property taxes, sales taxes, and payroll taxes are progressive, then one is led to believe that our tax system is progressive throughout.) Although the level of taxes is higher than it was, the pattern across income ranges has changed very little in the last several decades.

We apparently want our income taxes to recognize family size, to offset extraordinary medical expenses, to encourage private health and retirement insurance, and also to subsidize home-ownership and child day care. Through exemptions, exclusions, deductions, and credits, income tax expenditures duplicate SWE's pursuit of the goals of offsetting income loss and helping people buy essentials. The idea of the NIT is to extend the income tax mentality to pursue the goal of reducing income poverty. One example of this in the current tax law is the earned income refundable credit for low income families with children.

Some Broader Goals

The four immediate goals of the SWE system relate to the secondary distribution of income. The primary distribution arises in the market place, but it too is subject to social goals, the most important of which are high employment and positive growth in per capita production. Attainment of these goals, which may be aided by skillful application of fiscal, monetary, and other policies, will ease the problem of reaching the goals of the secondary distribution. Conversely, high unemployment and negative growth will place a heavy burden on SWE.

There is a school of thought which teaches that we can alter the primary distribution by tax incentives for employers to hire disadvantaged workers, by carefully targeted public job creation, and an egalitarian income policy--that is, without relying upon conventional SWE--and thereby increase the share of pretransfer income going to the poor. Some argue that such a shift could be engineered even at a time when unemployment is high and economic growth is slow. However, most would agree that such policies have a better chance of succeeding (though they might think such policies are then unnecessary) if the economic climate is more favorable.

The four immediate goals for the secondary distribution and the two for the primary distribution are reflective of still deeper goals we hold for our society. These include individual freedom of choice and equality of opportunity. (Incidentally, inequality in the size distribution of income is not a good indicator of attainment of equality of opportunity; measures of intergroup, e.g., black-white, income differences may be more meaningful.) This complex set of goals has some internal conflicts; pursuit of one goal may entail costs in terms of loss with respect to another goal. For example, high offsets to income loss may cause a reduction in employment and hence a slowing of economic growth. Or, steps to reduce inequality of opportunity may infringe on some individuals' freedom of choice.

Similarly, there are problems of getting an appropriate balance among efforts to achieve each of several goals. Here we confront an economist's paradox. There is such a thing as too much of a good thing--or less than the optimum amount of a bad thing, such as pollution or poverty--and that can be avoided only by balancing benefits and costs at the margin. For example, suppose we were considering adding $50 billion to SWE. Putting the whole [illegible] helping people buy essentials might [illegible] to social [illegible] of it into reducing (money [illegible] poverty. Although there may be wide agreement that the goals enumerated above are the operative goals for policy choice, there is less agreement about the priorities among them.

Welfare Reform Revisited

Let us return now to the question of welfare reform. A review of the goals of SWE and of the broader goals for the primary distribution turned up the following points which may enable a better evaluation of the controversy in welfare reform.

- Most SWE benefits go to the nonpoor.
- The SWE benefits received by the poor far exceed the welfare benefits listed in Table 2.
- The recipients of welfare are mostly poor, but not all the poor receive welfare.
- Not all of the ways to reduce income poverty are listed in Table 2, nor even in Table 1. (Tax reform and job creation are two that are left out.)

- The goals for welfare, which is part of the SWE system, are the same as the goals for SWE.

- Pursuit of these goals presents harsher disincentives for the poor than for the nonpoor. This is because SWE are a larger part of total income for the poor than the nonpoor, and because benefit-reduction rates are higher for them.

- Pursuit of these goals differentially restricts freedom of choice for the poor. This is because a disproportionate part of their SWE benefits take the form of goods and services (some of them designed especially for the poor) as opposed to money.

The challenge for welfare reform is the same as that for SWE reform, namely, to achieve, by recourse to reason and experience, a desirable balance among (1) the four goals of SWE and the taxes to pay for them, (2) the primary distribution goals of high employment and positive economic growth, and (3) the broader social goals of freedom of choice and equality of opportunity.

NOTES

[1]Alma McMillan, "Social Welfare Expenditures under Public Programs, Fiscal Year 1977," Social Security Bulletin, June 1977, p. 7. A time series has also been developed on "private social welfare expenditures." Such expenditures are not discussed in this paper.

[2]What attracted the most attention was the rise in the number of AFDC recipients, from 3.1 million in 1960 to 11.1 million in 1972. It has tended to decline since 1972 and stood at 10. [illegible]

[3]One might characterize SWF [illegible] helping people to buy leisure.

[4]One may ask whether some SWE, such as those for education, should be counted as capital transfers rather than as income transfers.

RESOURCES

Five related papers by the author are listed below. Each of the papers has been reprinted by the Institute for Research on Poverty, University of Wisconsin-Madison.

"What Does It Do for the Poor? A New Test for National Policy." The Public Interest, January 1974. (Reprint 117)

"Social Accounting for Transfer," The Personal Distribution of Income and Wealth, ed. James D. Smith. New York: National Bureau of Economic Research, 1975. (Reprint 143)

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BEYOND THE SAFETY NET: REVIVING THE PROMISE OF OPPORTUNITY IN AMERICA*

(By Sar A. Levitan and Clifford M. Johnson)

Hindrance Instead of Help

> Conservatives surely, above all, have long known and warned that real poverty is less a state of income than a state of mind and that the government dole blights most of the people who come to depend on it. The lesson of the period since 1964—a lesson so manifest it cannot be gainsaid—is that conservatives, if anything, understated their argument.[1]—GEORGE GILDER

Having made the claim that the poor suffer deprivation by choice, or at least by virtue of their own inadequacies, opponents of government assistance in aid of the poor also develop what they view as a logical corollary—that federal efforts to help the poor are counterproductive. Conservatives address the effectiveness of federal interventions with considerable caution, for in so doing they abandon the high ground of moral absolutes provided by assertions that the poor do not deserve our help. Yet, to the extent that the American public remains convinced that some groups do deserve federal support, advocates of laissez faire can resist the growth of the welfare state only by challenging the efficacy of public action. The result is a recurring theme: we cannot assist the poor even if they need our aid, for federal interventions inevitably constitute a hindrance instead of a help.

Underlying the conclusion that federal antipoverty efforts are counterproductive is the assumption that poverty is a function of moral deviance. Conservatives argue that government interventions are harmful by definition in that they weaken links between individual behavior and income among groups already plagued by an inadequate sense of personal responsibility. Other unintended results of federal action are less obvious but allegedly no less threatening to the welfare of the poor and to the total social fabric. Public assistance presumably destroys families and communities, inhibits individual advancement, hinders broader economic growth, and weakens the capacity of state, local, and private agencies to provide for the truly needy. Throughout such assaults on federal intervention, welfare programs are portrayed as a threat to the nation's moral fiber and a disruption of the propitious functioning of private markets and local governance.

These diverse attacks on antipoverty initiatives are not easily discredited in that they rarely address the narrow and immediate results of federal intervention. Instead, conservatives contend that federal ef-

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forts to aid the poor undermine their moral character and trigger destructive long-term changes in basic social and economic institutions—changes that outweigh any short-term benefits enjoyed by program participants. These criticisms rest heavily upon assertions of casual relationships not readily subject to empirical test. The critiques often embody some element of truth, but their relevance to the net effectiveness of government aid to the poor depends on subtler questions of degree, further complicating the task of rebuttal. Nonetheless, a careful analysis of conservative assumptions—that poverty is a moral problem, that social and economic structures are dramatically altered by antipoverty efforts, and that federal initiatives merely displace more effective state or local public and private programs—reveal that they are sharply at odds with both historical evidence and the findings of contemporary research.

POVERTY AS A MORAL PROBLEM

If poverty is defined as the lack of an adequate income, the federal government obviously has the capacity to reduce or eliminate it. However, if poverty is recast as a moral condition rather than a standard of income inadequacy, it may well prove impervious to government action. Conservatives offer numerous reasons for minimizing the redistributive impact of federal tax and spending policies. Their first line of defense is the claim that government aid cannot help the poor because poverty is a cultural and moral problem rather than an economic one.

In portraying poverty as a moral problem, conservatives view the poor as plagued by behavioral disorders that shape and define their condition. Crime, delinquency, and other social problems are cited as evidence of moral deviance among the poor which cannot be redressed through income transfers. One welfare critic, troubled by the "decline in civility" among the poor and assigning responsibility for this trend to federal antipoverty efforts, concluded that "more than any further economic resource, the disadvantaged now need a more secure sense of order in themselves and the neighborhoods around them. . . . The problem is now more a *moral* one than an economic one, and so is the challenge facing the welfare state."[2] George Gilder makes the argument explicit by claiming that "redistribution cannot fight poverty" and warning that acceptance of "self-indulgent" lower-class behavior will assign the recipients of aid "to permanent poverty, erode the requirements of growth and opportunity, and foster processes of cultural and economic deterioration."[3]

The grains of truth in these descriptions of poverty are evident. Income redistribution can bring only modest gains if unaccompanied by meaningful initiatives to expand the poor's opportunities for work, self-sufficiency, and control of their destiny. Because greater progress has been made in developing a system of income transfers than in broadening employment opportunities for the poor or advancing their political clout, the lack of future prospects remains a key aspect of poverty in America. These facts can be accepted without believing that poverty is a moral problem—that is, that poverty stems primarily from the deviant character and behavior of the poor. These findings also do

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not contradict the pressing need of those in poverty for additional income and the effectiveness of federal welfare programs in placing an income floor beneath those facing abject deprivation.

By emphasizing the imagined moral causes of poverty, opponents of government intervention deftly seek to shift attention away from the economic plight that is shared by all the poor toward an idealized image of individual responsibility. The tone and substance of such arguments imply that welfare benefits are irrelevant as a response to poverty and that government is actually impeding the self-reliance that alone can resol a moral problem:

> Time and time ag overnment has perpetuated a problem that would have solved itself lon ago if there had been no interference, because the individuals involved would have seen no alternative but to get their own hands dirty and take re of the matter themselves.
>
> The rejection of personal responsibility for an undesired turn of events, the outward projection of what often is the result of the individual's inadequate concern, planning, precaution, preparation, effort or plain neglect or unwillingness to face unpleasant facts, expresses the spirit of a wayward welfare state.[4]

The curious presumption that federal intervention has not reduced poverty ignores incontrovertible data on the subject. Nonetheless, because conservatives are preoccupied with the behavioral problems and presumed moral deviance of the poor, the true causes of poverty are ignored.

Another variant of the view of poverty as a moral problem presents loss of dignity as a more onerous fate than material deprivation. According to Ronald Reagan, welfare is one of our major problems because it destroys "self-reliance, dignity and self-respect . . . the very sul ance of moral fibre."[5] The alternative has been termed "earned dignity" or "dignity of achievement"—the dignity that is obtained when one achieves "that modest well-being presumed within the grasp of honest effort" and that is meaningful only if accompanied by censure of failure and "a strong sense of the shameful."[6] The poor are faced with a no-win situation: reliance on welfare precludes a sense of dignity, and yet failure to earn a decent income also must invoke censure and shame. In this view dignity can be found only in self-sufficiency through work or inheritance, a goal that is out of reach for millions of the working and dependent poor.

Granting the virtues of personal responsibility and dignity, the question is whether any attempt to alleviate the economic problems of the poor necessarily destroys these qualities and worsens their plight. In the absence of efforts to enhance employability and earnings capacity, income transfers certainly can undermine recipients' sense of dignity and responsibility. Yet when coupled with appropriate initiatives to expand economic oportunity, income support can extend a helping hand to the poor while bolstering self-sufficiency and concomitant self-respect. Conservatives overlook this vital distinction between policies that destroy self-esteem and those that give it a chance to flourish. To help is to hurt, they argue, and therefore the poor are best left to their own devices—albeit poor, but retaining as much of a sense of responsibility and dignity as their failures will allow.

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In casting poverty as a moral problem, conservatives also ignore the tangible ways in which federal initiatives have succeeded in reducing deprivation in America. Largely as a result of the antipoverty programs launched in the 1960s, the official poverty rate fell from 22.2 percent in 1960 to a low of 11.4 percent in 1978, and in-kind assistance further eased the hardship suffered by the poor. Since 1978 this decline has been reversed and the poverty rate has risen by more than one-third in four years, a result of retrenchments in government aid, inflation, and high unemployment. Notwithstanding this setback, however, federal aid has enabled millions of households to secure their basic needs, carrying the poor through difficult times and giving them a chance to look to the future.

Despite increasing federal expenditures for programs in aid of the poor, progress in combating poverty has been impeded by a diverse set of developments. Rapid escalation in housing and energy prices in the 1970s hit the poor especially hard, and slack labor markets lessened the opportunities of impoverished Americans to improve their fortunes through work. Efforts to reduce poverty have also been hampered by a sharp rise in the number of female-headed, single-parent households—a trend that opponents of government intervention have seized upon as evidence that federal antipoverty programs destroy the family and exacerbate the moral problem of poverty. The role of social programs in the dissolution of low-income families has emerged as a subject of intense debate, for a strong causal relationship between welfare and family breakups is a central component of the claim that federal aid to the poor is counterproductive.

FAMILIES IN POVERTY

The charge that provision of income to the poor destroys families typically elicits strong emotional reactions. Evoking images of an intrusive state disrupting an otherwise tranquil family nest, federal welfare programs take on a sinister quality. Already suspicious of the moral character of the poor, the nonpoor majority find it easy to accept the notion that their less fortunate neighbors are unable to manage of their personal lives or to make reasonable decisions regarding the future of their families. The causal relationships between poverty and family instability, and the net effect of income assistance and family dissolution on the broader well-being of poor individuals, rarely receive careful attention.

Assertions of a direct link between increases in federal social welfare expenditures and the proliferation of low-income, single-parent families have become commonplace in contemporary conservative thought. Milton and Rose Friedman blithely accept the conclusion that welfare programs weaken the family and "rot the moral fabric that holds a decent society together."[7] Considering the family to be "the only institution capable of generating upward mobility," George Gilder contends that social programs have brought "a great increase in the incomes of the poor in America at the cost of the catastrophic breakdown of their families."[8] President Reagan has placed this litany at the core of his administration's social policies, unabashedly

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stating that "there is no question that many well-intentioned Great Society-type programs contributed to family breakups, welfare dependency and a large increase in births out of wedlock."[9]

Regardless of its cause the trend toward single-parent, female-headed households, popularly termed the feminization of poverty, clearly enhances the difficulty of combating poverty in the United States. Two-parent families are far less likely to suffer poverty—only one in thirteen are poor, compared to one in three families headed by a female—while many female heads of households have no hope of earning enough to lift their families out of poverty even if they are able to obtain full-time work.[10] The rise of single-parent families is particularly significant as an obstacle to economic progress among blacks. Virtually half of black households are headed by single women, and their low earnings capacity has completely offset relative income gains by other types of black families over the past two decades.[11]

The decline of two-parent families among the poor poses a serious obstacle to antipoverty efforts, but it is by no means clear that federal programs in aid of the poor have played a major role in promoting family dissolution. It is a fact that increases in social expenditures and in the number of single-parent families occurred during roughly the same period. Conservatives are quick to correlate the two phenomena, assuming that welfare benefits and regulations govern the lives of the poor.

One of the few detailed accounts of how federal social programs affect interpersonal relations within low-income families (a version in many ways unrepresentative of conservative orthodoxy regarding the family) is offered by George Gilder. His graphic explanation speaks for itself:

> Marriage dissolve not because the rules dictate it, but because the benefit levels destroy the father's key role and authority.
>
> Nothing is so destructive of . . . male values as the growing, impervious recognition that when all is said and done his wife and children can do better without him. The man has a gradually sinking feeling that his role as provider, the definitive male activity from the primal days of the hunt through the industrial revolution and on into modern life, has been largely seized from him; he has been cuckolded by the compassionate state.
>
> His response to this reality is that very combination of resignation and rage, escapism and violence, short horizons and promiscuous sexuality that characterizes everywhere the life of the poor.[12]

Basing his argument on this extraordinary blend of chauvinism and social history, Gilder concludes that the expansion of welfare since 1964 has left behind "a wreckage of broken lives and families worse than the aftermath of slavery," particularly among blacks. He also claims that the "fact that they have more income only makes the situation less remediable."[13]

Besides his bizarre presentation of male sexuality and motivation, Gilder's explanation of the link between public assistance and family dissolution is based on highly selective data and held together by unsubstantiated logic. While Gilder portrays the inability of husband

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and father to provide for his family as central to the disintegration of marriages, he fails to acknowledge the extent to which the inadequacies of the labor market contribute to this frustration. Whatever sense of personal failure accompanies the inability to support one's family, it certainly would be at least as powerful if the family lived in abject poverty as in welfare dependency—the obvious difference being that the secure income of welfare heightens the potential independence of wife and mother under such adverse circumstances. Yet in Gilder's view all members of low-income families would be better off if welfare payments were withheld, for while they might have less income the male heads of households would still retain their pride, thereby fostering the preservation of stable marriages.

Gilder's argument runs the risk of all theories unsubstantiated by empirical evidence: that causal relationships that seem plausible will prove nonexistent. He relies heavily on the claim that welfare is the primary source of humiliation and destructive behavior, allowing a poor man's family to do better without him. But research data have failed to support this account of family dissolution. An Urban Institute study found that most female heads of households on welfare attributed their separations from husbands or boyfriends to personal rather than economic factors and that the primary effect of welfare on women heading families was to reduce pressures to remarry rather than to provide incentives for separation.[14] Similarly, a report prepared for the congressional Joint Economic Committee established that 36 percent of the increase in female-headed households between 1950 and 1972 could have been attributed to the movement of existing female-headed families out of the households of parents or relatives rather than additions to the number of female-headed families through family dissolution.[15] The negative income tax experiments in Seattle and Denver found that the rate of marital dissolution among recipients increased despite the availability of payments to two-parent families and a graduated tax structure that ensured that low-income mothers would not be better off without the presence of earnings of their husbands.[16] Rather than claim a causal effect, it would be more correct to argue that assistance to low-income families produces an "independence effect," allowing greater choice in establishing separate households outside marriage.

Ironically, in the past it has been the desire of conservatives seeking to restrict assistance to the deserving poor that has had the effect of establishing perverse incentives for able-bodied males to abandon their families in order to ensure a subsistence income for their wives and children. Nonetheless, nearly half the states accounting for roughly 70 percent of all AFDC recipients, have qualified unemployed fathers to receive welfare payments, thus eliminating the obvious impetus for the creation of female-headed households from the welfare system. Still, in some undefined way it is suggested that public assistance dictates the behavior of the poor and is responsible for the dissolution of families. Closer to the truth is the realization that welfare rules do not dictate the family decisions of the poor but that adequate benefits may offer them the opportunity to act on their own needs and desires.

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The strains that low wages and deprivation place on families living in poverty are factors in family dissolution that conservatives generally choose to ignore. Considerable evidence suggests that the adequacy of male and female wage rates have had a far greater impact on the growth of female-headed households than has the level of welfare benefits. While a 10 percent increase in AFDC benefits was linked to a 2 percent rise in female-headed families, a comparable jump in female wage rates was accompanied by a 7 percent increase in such families. Furthermore, a 10 percent increase in male wage rates was associated with an 8 percent decline in female family heads.[17] The implication is clear: improvements in the earnings of men in poor families will lessen financial strains and reduce the attractiveness of female-headed families, while enhanced income prospects for poor women (through work or welfare) will bolster their ability to maintain separate households and escape difficult marriages.

Those who choose to view welfare or other aid to the poor as disruptive of the family focus on the fact that broken marriages and single-parent families make it more difficult to escape poverty, ignoring the fact that poverty tends to break up families. Psychologist James Comer attributes the withdrawal of impoverished black men from family and work to a growing sense of futility. He states that "in a society where the male is supposed to be the breadwinner . . . it's a tremendous psychological burden when you know you don't have a snowball's chance in hell of taking care of your family. One of the defenses is not to care, to not do, not try." [18] When trapped in poverty, the familial relationships of the poor are severely tested, all too often falling victim to battered self-esteem.

Finally, although conservatives would like to presume that few societal changes beyond an increase in antipoverty efforts could account for trends in family dissolution, competing explanations and contributing factors abound. Welfare critics are correct in noting that the rise of female-headed households has appeared more sharply among the poor. However, the weakening of religious and communal ties, the loosening of sexual mores, and the greater acceptability of marital separation and divorce over the past two decades have fueled an increase in the number of single-parent families in all income groups. The decline of the traditional family is an irreversible result of social change in an increasingly affluent society, one that will have to be accepted and considered in the development of new strategies to alleviate poverty in the United States.

Decisions about marriage and work are vital choices that shape the course of one's life. There is no reason to suspect that the poor value a reliable spouse or family ties any less than do the nonpoor. The availability of welfare benefits may expand the options open to the poor, giving recipients the means to end a bad marriage. Certainly when possible, fathers should be forced to support their children, as legislation approved by Congress in 1983 provides, so that divorce does not become a means of escaping financial responsibility for one's dependents. Amid these difficult realities, however, it is not credible to argue that federal social programs alone have governed the lives of the poor and been responsible for the deterioration of their families.

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STIFLING THE ENGINES OF GROWTH

Opponents of welfare view the deterioration of low-income families as the major moral threat posed by federal aid to the poor. They also contend that government intervention creates poverty and destroys opportunity by diminishing the economy's potential for growth, thereby restricting upward mobility. Claims of government's counterproductive role rest both on the alleged misallocation of resources to nonproductive endeavors and on the presumed costs of social regulation. The underlying assumptions are that the free labor market is the most efficient distributor of opportunity based on merit and that the lot of the poor would improve if the federal government ceased to interfere.

Moving from the premise that the market's allocation of resources maximizes efficiency and growth, those committed to laissez faire principles necessarily conclude that federal spending to expand opportunity can only subvert that goal. As expressed in the Reagan administration's initial economic recovery program,

> Federal programs have thus been created and expanded in the name of stimulating growth, jobs . . . and in other ways to alter and finetune the level and composition of national economic activity. Many of these programs, however, have served to distort the market economy and have thereby contributed as much to the problems they were intended to address as to their solution.[7]

Even in cases where opportunity and self-sufficiency are increased through federal efforts, conservatives contend that the benefits are outweighed by the diminished growth and inflationary pressures that accompany social welfare expenditures. For some, social programs are inherently wasteful and inflationary because they divert resources from productive endeavors in the private market. For others, the danger lies in an excessive commitment to insatiable social welfare demands, requiring prudent limits on federal social programs despite evidence of unmet needs. Regardless of the rationale weakened economic performance is deemed sufficiently harmful to negate the beneficial results of federal intervention in aid of the needy.

If the link between social welfare expenditures and poor economic performance is accepted, the rejection of government assistance can rest solely on the assumption that economic growth and price stability will help improve the economic status of the poor. Michael Novak presented precisely this argument as a moral justification for Reaganomics, claiming that

> The Reagan economic plan is based upon a diagnosis of the 'upward push' of the poor and lower-income classes, who seek upward mobility. The only hope such persons have for upward mobility lies in (a) a growing, innovative, investment-rich economy and (b) the containment of inflation. Unless inflation is contained, the progress of lower-income families is virtually impossible. Upward push stops when the economy stops growing and when its industrial plant becomes obsolete. A society which loses economic dynamism cannot offer hope to families of lower income.[8]

President Reagan has offered similar justifications for cuts in social spending and inaction amid sharply rising unemployment. Claiming

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that poor families have gained additional purchasing power through its anti-inflation efforts, the Reagan administration has argued that low-income Americans benefit more from reduced inflation and accelerated growth than from direct aid and that it is not possible to have both. In the administration's words, "the Federal Government can do more to provide lasting assistance to the disadvantaged by assuring strong and less inflationary economic growth than through income transfer programs."[21]

The 1983 *Economic Report of the President*, prepared while joblessness reached its postwar peak, reflects the strength of the philosophical bias against federal programs to expand employment and broaden economic opportunity. Although it voiced support for training to assist the structurally unemployed, the report implicitly rejected the job creation proposals of "well-meaning" members of Congress with the statement that "only a balanced and lasting recovery can achieve a substantial reduction in unemployment."[22] In addition the report was highly critical of public works projects to boost employment, contending that they generally are poorly timed, displace or delay state and local expenditures, crowd out private sector employment, and offer little benefit to the unemployed. The only proposed responses to what the report labeled "the most serious economic problem now facing the United States" was a modest training program for displaced workers and other long-term unemployed and revisions in federal unemployment insurance statutes that would allow states to use unemployment insurance funds for training, job-search assistance, and wage subsidies.[23]

Throughout his political career President Reagan has opposed federal job creation programs, arguing that they generate unproductive work and weaken the national economy. With a litany of references to "make-work jobs" and "quick fix" responses to recession, his administration has portrayed public employment initiatives as dismal failures that led to long-term economic decline. Even when the unemployment rate reached double-digit figures in September 1982, the president offered the following accounts of federal public works and other jobs program:

> Public works jobs programs have proven to be expensive failures. They were the things that for seven previous recessions the Government has turned to, and it was like a quick fix—stimulated the economy briefly but about two years later you fell into another recession. And every one of them was deeper and worse than the one before. Now they'd [liberals] drag us right back with that kind of program into the swamp that we've been trying so hard to lift ourselves out of.[24]

> Actually, what we're talking about is building a solid base for the economy as the method of providing the jobs the unemployed need, and providing them on a more or less permanent basis instead of just a quick flurry that does no real good but leaves us closer to the brink of disaster than we were before.[25]

Reagan's assessment of the much-maligned federal employment and training program was similar. He has charged that public service employment created "jobs without any future" and that training efforts left participants unsuited for jobs in the private sector.[26]

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The "trickle down" theory that the poor are best served by anti-inflation and growth-oriented strategies has a long history. For this tactic to meet the test of social justice it is not necessary that those with low incomes reap the greatest gains or even that all income groups share its benefits equally. It simply must be shown that other federal policies would be less effective in promoting the well-being of the poor. As proponents frequently acknowledge. "some Americans will surely do less well than others, but everyone does eventually gain" when demands on government are reduced "to allow the economy to perform, albeit imperfectly, its traditional role of increasing the welfare of all Americans."[27] The relative fairness of this approach ultimately depends upon the accuracy of conservative claims that federal social welfare interventions are incompatible with stable prices and economic growth.

By identifying federal spending as the cause of stagflation and labeling defense expenditures as essential to national security, conservatives have sought to forge a direct link between social welfare programs, budget deficits, and the nation's economic ills. In the extreme, huge federal deficits can push interest rates upward, thereby fueling inflation and dampening economic growth. However, social expenditures represent one of several components of the federal budget, and numerous combinations of tax and spending policies can yield deficits within manageable levels. As Ben Wattenberg has stressed, the unprecedented prosperity of the past thirty years has coincided with the rise of the welfare state, a development its critics generally choose to ignore.[28] These parallel trends in economic growth and federal intervention may be coincidental, but they belie the claim that prosperity and social justice are mutually exclusive.

The Reagan administration has exaggerated the dangers posed by federal deficits when assaulting social programs while recklessly ignoring those threats in its defense and tax policies. The rapid growth of entitlement expenditures throughout the 1970s lent credence to the argument that social spending lay at the heart of the persistent deficit problem. By 1983 that causal relationship was rejected by President Reagan's chairman of the Council of Economic Advisers, Martin Feldstein, who argued that an unprecedented defense buildup and tax reduction were "driving the deficit." With federal deficits projected to exceed $200 billion annually throughout this decade, and with defense expenditures under Reagan consuming an ever-larger portion of the projected federal budget, the impact of federal aid to the poor on the nation's broader economic health is far less certain than conservatives generally imply.

While federal deficits have swelled to mammoth proportions during Reagan's first three years, spending for social programs has fallen considerably. Between 1980 and 1984, the shares of the total federal budget devoted to nondefense discretionary programs and means-tested entitlement for low-income Americans declined by roughly 25 percent. President Reagan has cut $26 billion from 19 federal programs designed to provide aid to the nation's poor, and he proposes to spend a smaller percentage of GNP on means-tested and discretionary programs in 1989 than was allocated for these purposes at the inception of the Great Society in 1965. His administration's massive deficits may

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jeopardize future economic growth, but spending for social programs clearly is not responsible for the rising tide of red ink. Even if *all* discretionary spending—for education, nutrition, pollution control, health centers, employment and training, and so on—was eliminated by 1988, the federal deficit would still exceed $70 billion.

Federal social welfare programs can also be equated with large deficits and poor economic performance only if conservative assumptions about American tax burdens are accepted. Acknowledging the need for increased defense expenditures in the near future, there is no need to choose between federal efforts to reduce poverty and responsible fiscal policy. In 1980, prior to the sweeping Reagan tax cuts adopted in 1981, the combined receipts of all levels of government totaled 30.7 percent of the nation's gross domestic product (GDP). In contrast, 42.6 percent of GDP was devoted to government functions in France, 37.4 percent in West Germany, and 32.9 percent in Canada. Similarly, Western European nations spend far more proportionally for social welfare programs than the United States. These countries are frequently cited as challenging America's predominant position in international markets, and yet they support a tax burden at least as great as any found in the United States.

Economic trends since enactment of the Reagan tax cuts have failed to substantiate the potential returns advocates claimed for the reduced tax burdens. Most notably, the tax cuts have not produced the surge in savings and investment which played a key role in supply-side theories. While the old-fashioned Keynesian medicine of deficit spending fueled economic recovery in 1983–1984, the pattern of the past four years provides no support for conservative assumptions of a direct link between tax burdens prior to 1980 and sluggish economic growth.

The prospects of the poor are diminished by slow rates of economic growth both because aid to them is reduced and because their living standards can be seriously eroded during periods of rapid inflation. Yet there is little reason to believe that general prosperity offers a substitute for the assistance provided through targeted employment and income transfer programs. At best, the poor appear to benefit proportionately from long-term economic growth, and among the most disadvantaged low-term groups the returns are likely to be more meager.[29] In contrast, targeted employment policies have been found to generate substantially greater benefits for the poor than have tax reductions or other strategies for broad economic stimulus.[30] To the extent that prosperity does not reach many of the needy who cannot compete effectively in the labor market, federal intervention to expand economic opportunity is essential.

Given the goal of broadening economic opportunity for the poor, it is ironic that conservatives reserve some of their harshest criticism for federal employment initiatives. Critics of federal jobs programs raise some valid concerns—past efforts have suffered under multiple objectives and political pressures, have often been implemented too late to be effective as a countercyclical measure, and have been developed too hurriedly to promote careful targeting or sound administration of federal funds. Yet available evidence suggests that carefully drafted programs with adequate financial support can be successful in imparting valuable work experience and open opportunities to low-

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income Americans. Without federal aid the most disadvantaged have little chance of sharing in the fruits of prosperity and the increased economic opportunities it might bring.

Opponents of federal intervention attempt to reconcile their laissez faire philosophy with a commitment to expanded economic opportunity by casting government as the obstacle to individual and societal advance. In another example of Orwellian "doublespeak," President Reagan kicked off his reelection effort with appeals to "our bold vision of an opportunity society for the future," one which seeks to "bring out the best in every person, because we know every man and woman carries the spark of greatness."[31] While sounding distinctly liberal, his prescriptions implied that only the meddling habits of liberals and federal bureaucrats limit the horizons of the poor and disadvantaged. Arguing that opportunity is limited by government-imposed barriers to economic growth, Reagan returned to the usual litany of appeals for lower taxes, reduced government intervention, and a return to traditional values as the key to extending opportunity to all Americans.

Perhaps the most frequently cited example of how government limits opportunity and creates poverty is that favorite conservative whipping boy, the minimum wage. Critics of federal minimum wage legislation contend that recent increases have priced many low-skilled workers, particularly minority and teenage jobseekers, out of the labor market. While the federal minimum wage remains too low to lift many families out of poverty even when full-time work is available, its opponents believe that a sizable number of the unemployed in poor households would gain access to earned income in the absence of a statutory minimum wage.

Research attempts to measure accurately the relationship between a statutory wage floor and aggregate employment levels have been inconclusive and often contradictory. The implications of lowering or eliminating the minimum wage are particularly difficult to assess because this wage protection has become inextricably intertwined with the nation's social welfare system. While continuing to fulfill its original function of preventing rampant wage exploitation, the minimum wage also remains the most direct and comprehensive policy tool to improve the lot of the working poor. An excessively narrow focus on the probable elimination of some jobs obscures these broader benefits of a federal minimum wage.

At the current federal minimum hourly rate a wage earner working full time and year round with two dependents still remains in poverty. Moreover, few jobs in the secondary labor market, where most low-wage workers are concentrated, are stable enough to ensure full-time, full-year employment. For these workers the federal minimum wage remains the last line of defense before slipping into abject poverty. Elimination of the wage floor, favored by many conservatives, would undoubtedly save a few more jobs but would also swell the ranks of the impoverished. Required to pay a minimum wage, some employers may be encouraged to invest more in the training of their workers, thus raising productivity and enhancing those workers' employability and self-sufficiency.

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For prospective workers the federal minimum wage provides an incentive to rely on earnings rather than on welfare. Torn between the known benefits of dependency and the risks of an unstable job market, these workers are more likely to choose the latter if the money reward is sufficiently high. Eliminating the minimum wage, or lowering it to an ineffective level, would reduce work incentive and make welfare the more attractive alternative. A society that places a high value on the work ethic should also be willing to pay a price for inducing the poor to work.

The benefits of recent proposals to lower the minimum wage to increase job prospects among unemployed youth are similarly limited. In loose labor markets such a program may have the effect of drawing students out of school and displacing older workers to fill newly created jobs. Solving the problem of youth unemployment by lowering the minimum wage provides a mixed blessing for the poor; any advantages for the young may be gained at the expense of their elders.[23]

DESTROYING PRIVATE INITIATIVE

The claim that government intervention in aid of the poor is counterproductive—undermining morality, perpetuating poverty, destroying jobs, and weakening economic performance—is bolstered by invoking the images of voluntarism in America. Conservatives argue that federal programs diminish opportunities for the poor by stifling efforts of private institutions to aid low-income persons in more constructive ways. Just as the private market would provide jobs and opportunity if unencumbered by government interference they claim, private charities and local communities would combine to meet the needs of the deserving poor if not preempted by federal actions. Contending that they do not lack compassion, true believers in laissez faire insist that their opposition to federal aid is based on efficiency considerations. Federal initiatives, they assert, simply get in the way of cost-effective aid to the poor.

The Reagan administration has frequently appealed to voluntarism in defending its reduced social welfare efforts. Rewriting the nation's social history, President Reagan portrayed the era prior to substantial federal involvement in social welfare as one without serious social problems, charging that "this Federal Government of ours, by trying to do too much, has undercut the ability of individual people, communities, churches, and businesses to meet the real needs of society as Americans always have met them in the past."[24] He perceives the federal bureaucracy as having intruded into the affairs of state and local governments and displaced the efforts of communities to resolve their own problems:

> We need only to believe in ourselves and to remember that the true strength of this country lies in the minds, the motivation, and the faith of people like yourselves, not the bureaucracy in Washington, D.C. . . . [T]here are just some areas where the Government has been trying to do things that the Government was never set up to do, and those things belong back here in your States and in your communities.[25]

> The truth is that we've let government take away many things we once considered were really ours to do voluntarily.[26]

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Reagan's appeals to voluntary and community action, reflecting nostalgic yearnings for the past that lie at the core of conservative philosophy, presume that private organizations can respond adequately to most social problems and that the proliferation of federal roles and responsibilities has led to the erosion of community in modern America.

The theoretical underpinnings of the Reagan administration's approach to private nonprofit organizations can be traced back to the writings of Edmund Burke.[36] In a modern context sociologist Robert Nisbet has argued that government interventions accelerate the decline of community cohesion and weaken "intermediate associations" between the individual and the state. According to Nisbet the disintegration of community ties and institutions in modern industrial society has been caused by the expansion of government power:

> The conflict between the central power of the political state and the whole set of functions and authorities contained in church, family, guild, and local community has been, I believe, the main source of those dislocations of social structure and uprootings of status which lie behind the problem of community in our age.[37]

Thus, the present-day disciples of Burke argue that government, rather than compensating for the slackening bonds of community, has been primarily responsible for the presumed deterioration of those traditional ties.

The reverse casuality proposed by Nisbet has been embraced enthusiastically by conservatives for two reasons. First, this reasoning implies that reductions in government power and interference will halt the destruction of community linkages and perhaps rejuvenate private initiatives directed toward social problems. Second, to the extent that stable and closely knit communities can be shown to contribute to the upward mobility of the poor, Nisbet's view suggests that federal intervention is detrimental to their long-term interests. Gilder speaks for numerous critics of federal social welfare policies who charge that "egalitarian" federal programs destroy the strong communities and familial cultures on which upward mobility depends.[38] Conservative assumptions lead directly to the conclusion that federal programs in aid of the poor are more hindrance than help.

A parallel but narrower argument against government social welfare efforts focuses on the impact of such intervention on private charity. It is based on the claim that expanded government activity hampers the operations of voluntary agencies by competing for clients and labor, restricting the scope and nature of private services and diminishing the perceived need for charitable contributions.[39] Welfare critic Martin Anderson concludes that because "government, at all levels, has taken a greater and greater role in welfare, people seem to have become more reluctant to contribute to private charitable institutions."[40] Implicit in these attacks is the belief that government programs have merely displaced prior private efforts and that the withdrawal of federal aid would result in no net loss, and possibly a net gain, of resources available to combat the nation's social problems.

Many of these presumed relationships between government intervention and local initiative are too broad to be assessed objectively. By

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their nature family and community structures evolve in response to myriad social and economic forces. The expansion of government responsibilities may have contributed to a weakening of familial and communal ties, yet federal intervention has responded to powerful societal changes. Trends in geographic mobility, per capita real income, and the secularization of American culture have all influenced the disintegration of extended families and organic communities; the expansion of government responsibilities has been more a reflection of these trends than a cause of resulting changes in family and community life.

In historical accounts of private initiative and charitable giving the conservative thesis appears more clearly at odds with the record. Prior to government intervention private voluntary activities managed to provide only the most modest relief and assistance to portions of the poor population. These efforts were least effective in areas with high concentrations of low-income households and seldom moved beyond the provision of minimal temporary aid to improve the poor's prospects for self-support. The inadequacy of private help, if not its complete breakdown, generated the need for government intervention under the New Deal. As government responded to unmet basic needs there is no convincing evidence that charitable contributions suffered a corresponding decline. Ample evidence suggests that government social welfare efforts have not dampened private giving and that charitable activities may receive greater private support when supplemented by public expeditures.[41] No doubt the focus of private initiatives has shifted as government has accepted responsibility for the provision of basic needs, but the activities of a healthy nonprofit sector still complement government efforts to fulfill pressing social needs. Indeed, the progressive tax structure has encouraged much of the charitable giving during the past four decades.

Administration claims that cuts in federal social welfare expenditures would be offset by an increase in charitable donations to nonprofit agencies have no empirical basis. To make up for the $35 billion lost as a result of Reagan budget policies during fiscal years 1982–85, private voluntary contributions would have to quadruple over prior levels of giving. At the same time, however, the purses of potential donors may have been tightened because personal income tax cuts passed at President Reagan's insistence had the effect of raising the potential costs of charitable contributions.[42] Despite perceptions of increased need, expectations of a dramatic jump in charitable donations hardly seem realistic.

To examine the impact of Reagan budget cuts in greater detail, the Urban Institute has conducted an exhaustive survey of some 6,900 nonprofit organizations throughout the nation and compiled detailed information regarding their financial health. Preliminary data suggest that private agencies have suffered considerably as a result of the administration's social welfare philosophy. The study found that federal, state, and local governments are the largest source of funding for nonprofit organizations, providing approximately 39 percent of their 1982 revenues. Of the organizations receiving this support, 57 percent reported reductions as a consequence of recent federal budget cuts; only

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8 percent could claim increases. The remaining 35 percent with no cuts suffered a real decline in the value of their support, which was eroded by inflation. Organizations primarily concerned with the arts and cultural activities escaped relatively unscathed, but significantly reduced government support was reported by 68 percent of those organizations engaged in employment and training, 72 percent of legal services groups, and 62 percent of social service agencies.[43]

Empirical evidence casts considerable doubt on the proposition that federal social welfare expenditures are crowding out private charity. The Urban Institute finding that two-thirds of the existing nonprofit organizations have been founded since 1960 and flourished during a period of rapid government expansion runs counter to conservative claims. The proportion of Americans willing to volunteer some portion of their time in service to others has also increased during the past two decades. The few studies that have examined government expenditures and volunteer effort in areas of higher education and social welfare have found no clear or significant relationship between these two factors.[44]

In its glorification of "the American spirit of voluntary service, of cooperation, of private and community initiative," the Reagan administration consistently omits references to improvements in the quality of life that have accompanied federal social programs. The claim that government has merely displaced private charity is strongly refuted by qualitative assessments of the impact of public expenditures. Federal support has improved the quality of care for children, the elderly, and other dependents, supplementing the continuing efforts of families and purchasing a greater degree of privacy and autonomy for many adults who prefer to live independently and maintain separate households.[45] While the nostalgic image of home and community care is appealing, in fact it too frequently involved inadequate health care, degrading living conditions, and wide disparities in the availability of support across families, communities, and geographic regions.

Federal assistance to those in need has filled the gaps that always exist between uncoordinated private initiatives, ensuring broad availability of essential services and placing an uneven income floor beneath the poor while also raising standards for provision of such aid. The federal government has played a similar role in complementing the efforts of state and local governments to meet community needs. In most cases where federal aid has been reduced or withdrawn, community leaders and agencies have found it impossible to maintain existing levels of services. Private and public social welfare efforts at the local level, far from being crowded out by federal intervention, have been shored up in diverse and useful ways.

THE ASSAULT ON LOCAL CONTROL

The final refuge of opponents to federal welfare efforts often lies in rigid and outmoded concepts of federalism. In the classic conservative view virtually all responsibilities for social welfare should rest with state and local governments, while the role of the federal government should be limited to selected areas such as national defense and interstate commerce. The argument is that state and local governments,

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being closer to the people, are better able to assess community needs and to distinguish between the undeserving poor and the truly needy. The fear of federal intrusion and preference for local governance has deep historical roots, reflected in the structure of the Constitution and recurring conflicts over states' rights throughout American history. Local provision of aid to the poor in particular has long-established precedents, dominating welfare laws for more than three centuries from the passage of the English poor laws to the inauguration of the New Deal.

Despite vast social and economic changes conservatives repeatedly invoke this legacy of state and local control in arguing that federal social welfare efforts are counterproductive. "On balance," Martin Anderson wrote, "the closer the level of government is to the people, the more efficient and effective our social welfare programs are apt to be." [46] Similarly, Roger Freeman asserted:

> Decisions on whether parents should be required to work—or be partially or wholly exempted because of personal impairment—require individual judgment in each case which can be properly exercised only under local control because no nationally uniform system can do justice to the infinite variety of types of need, individual problems and potentials.[47]

The images evoked in these arguments are of small, closely knit communities uniting together to take care of their problems and residents. Many social needs presumably will be met through private initiatives, but what tasks remain fall to the democratic mechanisms of local government.

Although the appropriate balance of federal, state, and local powers has been debated under every administration, President Reagan has made the issue an integral part of his attack on federal social welfare programs with his proposals for a new federalism:

> [The] massive Federal grantmaking system has distorted State and local decisions and usurped State and local functions . . . I propose that over the coming years we clean up this mess. I am proposing a major effort to restore American federalism.[48]

> In a single stroke, we will be accomplishing a realignment that will end cumbersome administration and spiraling costs at the Federal level while we insure these programs will be more responsive to both the people they are meant to help and the people who pay for them.[49]

Taking the principle of subsidiarity—namely, that federal government should not undertake functions that can be performed by a lower level of government—to the extreme, Reagan implies that only state and local authorities are competent to identify social needs and to distinguish the deserving poor from the malingerers. Federal intervention is equated with intrusion and waste.

The attempt to decentralize program administration in federal social welfare initiatives can be an appropriate response to regional diversity and centralized bureaucratic inefficiency. However, the Reagan administration has shown little willingness to engage in a thoughtful and objective sorting of federal, state, and local responsibilities. Despite a broad consensus that income maintenance should be financed at the federal level in a national battle against poverty, President Reagan has

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sought to transfer AFDC and other income transfer programs serving able-bodied recipients into the states' domain. In return the administration has proposed federalization of Medicaid, an entitlement program in which waste, fraud, and abuse have been reduced as a result of state cost control and enforcement efforts. If a reevaluation of federalism is to be constructive it must begin with a more realistic appraisal of the resources and capabilities present at each level of government and the nature of the problems that are being attacked.

The administration has defended its proposals to decentralize welfare by citing its belief that "income redistribution is not a compelling justification in the 1980s for Federal taxing and spending programs."[50] The unspoken intent of Reagan's new federalism proposals is also to strengthen the links between income transfers and low-wage labor markets. Elimination of a federal role in income maintenance for the able-bodied poor would enhance the ability of state and local officials to maintain benefit levels below prevailing wage rates, thereby ensuring the availability of low-wage labor in local labor markets. Critics of federal intervention promote these interests when they euphemistically declare that "communities should be able to decide on the standards at which they wish to support their needy members."[51]

As in the case of voluntarism, conservatives seek to obscure the reasons why federal social welfare programs have grown in recent decades. Contrary to the idealized notion of community responsibility, state and local governments consistently failed to marshal the will and the resources to alleviate poverty and expand economic opportunity for the most disadvantaged prior to federal intervention. By definition the poorest states and localities faced the most severe problems while having the least capacity to redress them. Competition among states also discourages individual states from taking a lead in expanding outlays for welfare programs while contiguous states hold back. The federal government, with its broader and more equitable financing structures and revenue base, is far more able to support income maintenance and large-scale human resource programs. Past experience strongly suggests that if the call to return social welfare responsibilities to state and local governments were heeded the result would not be more responsive aid but simply less aid to those in need.

A recent study of the effects of federal spending cuts on state and local governments demonstrated that such concern is well justified. Close examination of the nature and impact of changes in fourteen states and forty local governments during 1982 revealed that only about one-fourth of all cuts in federal funding for employment and job training compensatory education, health and social services, and entitlement grants were replaced by states and localities. In some cases the effects of the cuts were delayed by utilizing carryover federal grant funds, thus offsetting the immediate cuts and delaying their ultimate impact. However, as tighter eligibility requirements trimmed AFDC and food stamp rolls, several states even enjoyed net savings. The cuts in entitlement programs were the least likely to be replaced, leaving the working poor who were on the margin of income eligibility for means-tested programs most affected by reductions in federal aid.[52]

Some critics of federal social welfare programs defend this result,

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citing as just fication the charges of waste and counterproductivity already discussed. Others still contend that if unmet needs were real and pressing state and local governments would step in to fill current federal roles, refusing to acknowledge the barriers to broad political representation which decentralization creates. By placing decision-making authority in state houses and city or town halls, opponents of antipoverty efforts would succeed in fragmenting the constituencies that support aid to the needy, reducing the visibility of social problems and restricting the policy options available to public officials to adopt potential remedies.[53] This political strategy constitutes an important hidden agenda in the federalism debate and renders the allegedly greater responsiveness of state and local governments largely irrelevant to prospects for aid to the poor under a decentralized system. Many state and local officials would strive to meet the most pressing social needs in their jurisdictions if federal support were withdrawn, but the means at their disposal would normally be very limited.

This argument does not negate the fact that in some realms decentralized decisionmaking and program administration is crucial to the effectiveness of government efforts. However, many pervasive social ills are national in scope and cannot be addressed efficiently or effectively at the local level. Even in traditionally local areas of responsibility, such as education, a federal role is necessary to ensure the availability of resources in impoverished regions, to reduce the duplication of efforts that occurs when separate jurisdictions reinvent the wheel, and to facilitate improvements in knowledge and practice pertaining to complex social problems. These federal activities have not hampered related state, local, or private initiatives in the past. Rather, federal intervention has increased the total resources devoted to alleviation of the nation's social problems and strengthened the safety net that protects the well-being of all Americans.

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Nothing to Be Done

[A] man whose labor and self-denial may be diverted from his maintenance to that of some other man is not a free man, and approaches more or less toward the position of a slave. . . . We shall find that every effort to realize equality necessitates a sacrifice of liberty.[1]—WILLIAM GRAHAM SUMNER

Convinced that the poor are responsible for their poverty and that government aid exacerbates their plight, conservatives arrive at the inevitable conclusion that poverty is an unavoidable natural state of affairs. Although true believers in laissez faire anticipate that economic growth will somewhat alleviate poverty, they accept the notion that some individuals must fail even in the most affluent society. The penalties of failure cannot be softened, they contend, because government intervention to alter market outcomes would diminish the rewards for achievement and undermine the motivation and moral character of those it sought to help. Further, conservatives view inequality as inherent in a system that distributes income on the basis of talent, effort, luck, and merit. About the resulting deprivation, however unfortunate, there presumably is nothing to be done.

The determination of conservatives to place the problem of poverty outside the government's scope of proper responsibilities is revealed most clearly in their polarization of competing societal values. Arguing that every attempt to aid the poor is a threat to liberty and a step toward ruthless egalitarianism, conservative ideologues portray freedom as an absolute good that can never be compromised or balanced against other ideals and aspirations. They similarly construe every program that redistributes income as leading irreversibly toward a system that assures equality of result without regard to individual effort or merit. By framing the debate in the context of polar extremes, opponents of federal intervention seek to cast aid to the poor as fundamentally at odds with basic societal values. Lost is the notion of a balance between competing values—one that preserves individual freedoms in the framework of a compassionate welfare state in order to give those freedoms meaning for all its members.

Opponents of federal intervention also justify inaction and resignation amid the persistent failures of free markets by invoking a set of contradictory arguments. They claim that the current combination of inkind benefits and cash assistance to the poor has eliminated the problem of inadequate income in America and that poverty remains largely a figment of the liberal imagination. Picking up on the notion that the nation's natural rate of unemployment has risen due to structural changes in the economy, laissez faire adherents also imply, paradoxically as it may appear, that forced idleness and related deprivations

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are normal. Disregarding their internal inconsistency, diverse adherents claim that these eclectic arguments reinforce the theme that the nation has done all it can to combat poverty and inequality of opportunity.

Beneath the rigid polarization of competing ideals and the wide-ranging rationalization for public inaction, conservative views on poverty and inequality arise out of fundamental value judgments. Adverse to change, they are willing to condone known economic problems and social ills rather than risk the uncertain consequences of federal intervention, and they justify this choice by resorting to a presumably moral claim that we are not our brother's keeper. Thus, the premises of conservative ideology are rooted more in normative judgments than in the nation's experience or empirical evidence and lead to negativism concerning prospects for helping the poor and expanding opportunities for them. A belief in collective responsibility for the deprivation of the least fortunate in American society leads to a very different and compelling view.

THE THREAT TO FREEDOM

Since colonial times political and economic freedoms have been perceived as closely intertwined in the United States. The first settlers, along with generations of immigrants to follow, came to these shores to escape the political or religious oppression and economic restraints of authoritarian governments. Because property rights conferred political rights, strong safeguards were established to prevent the usurpation of private property by government. As America evolved from an agrarian to an advanced and predominant industrial society, the nation's democratic institutions developed more fully and the link between political and economic freedoms became less clear. Nonetheless, the rigid notion that every step toward expanded opportunity places liberty in jeopardy persists, enjoying renewed popularity in the 1980s.

Vigorous assertions of the importance of economic freedom and the dangers of federal intervention emerged in the 1940s in response to the expanding role of government under the New Deal. In his famous work, *The Road to Serfdom*, Friedrich Hayek argued that government bureaucracies by their nature shift decisionmaking away from democratic processes and toward totalitarian or dictatorial control.[2] Similarly, Ludwig von Mises warned of the tendency of government officials to seek everlarger and more powerful roles and institutions in which to operate.[3] Milton Friedman has reiterated this claim, asserting that government "restrictions on economic freedom inevitably affect freedom in general."[4] Threatened by proposals for greater economic planning, opponents of federal intervention have claimed that bureaucracies administering the welfare programs would escape democratic controls and secure a frightening autonomy. Conservatives quickly dismiss the potential for effective legislative or popular oversight of government initiatives; thus, they perceive the preservation of economic freedoms as indispensable to the protection of political freedom.

As in other areas of conservative ideology, the Reagan administration has presented a remarkably frank defense of the presumed rela-

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tionship between political and economic freedoms. The 1982 *Economic Report of the President*, calling the link between these freedoms "important" and the evidence to support it "striking," offered the following syllogism:

> All nations which have broad-based representative government and civil liberties have most of their economic activity organized by the market.
>
> Economic conditions in market economies are generally superior to those in nations (with a comparable culture and a comparable resource base) in which the government has the dominant economic role.
>
> No nation in which the government has the dominant economic role (as measured by the proportion of gross national product orginating in the government sector) has maintained broad political freedom; economic conditions in such countries are generally inferior to those in comparable nations with a predominantly market economy.[5]

Curiously, the same report notes that the economic role of government in the nations that guarantee their citizens both political and economic freedoms differs widely, without jeopardizing the former. Yet this acknowledgment somehow fails to diminish the Reagan administration's fervor in concluding that an increase in economic freedom will "provide greater assurance of our political freedom."[6]

The simplistic causal relationship implied by the administration—that restrictions on economic freedom necessarily bring curtailment of political freedom—has been described explicitly by former Treasury secretary William E. Simon. Using the Soviet Union as his model of government intervention in the economy, he attempted to demonstrate that the unfortunate consequences of the modern welfare state force us to choose between polar extremes. The Soviet economic controls being oppressive and counterproductive, Simon concluded that the United States must avoid restrictions on free market activities at all costs: "A nation that decreases its economic freedom *must* be less politically free. And because freedom is a precondition for economic creativity and wealth, that nation *must* grow poorer. It follows as night follows day. *If* one understands the polar systems."[7] In this view, economic freedoms cannot be constrained without significant losses in political freedom and without declines in economic growth. Simon summarily rejects the idea that a middle ground could provide the optimum balance of competing societal values.

Granted that sharp restrictions on economic choice threaten political freedoms, conservative analysts fail to demonstrate that this crude relationship is relevant to the subtler degrees of economic regulation and income redistribution at issue in modern America. The scope of government intervention in the economy varies widely in France, Sweden, Japan, and the United States, and yet the dominance of political freedom in these nations cannot be seriously questioned. Opponents of federal social welfare initiatives are fond of portraying current programs or any proposed expansion of redistributive measures as an imminent threat to political liberties. In reality, federal efforts to expand the welfare system, including the most ambitious proposals that have received serious congressional consideration during the past two decades, have fallen well within the range of economic constraints already found to be consistent with political freedom in Western European nations.

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Conservatives recognize no circumstances in which members of a prosperous and free society might choose to share their acquisitions in pursuit of greater economic security and social justice. Relying on the experience of an earlier, less affluent era, they associate government regulations of guild and colonial vintage with tyranny and view current intervention as inimical to the spirit of entrepreneurship. They perceive, accordingly, the combination of democratic institutions and free markets as the only alternative to this authoritarianism. William Graham Sumner explicitly described the incompatibility of freedom and aid to the poor:

> If any one thinks that there are or ought to be somewhere in society guarantees that no man shall suffer hardship, let him understand that there can be no such guarantees, unless other men give them—that is, unless we go back to slavery, and make one man's effort conduce to another man's welfare.[9]

Even if modern social welfare programs were intended to provide a *guarantee* against hardship—a noble goal far beyond the more immediate objectives of current policies—the required redistribution of income would not constitute a burden so onerous as to be labeled "slavery." Yet, by defining liberty as the total absence of government restrictions or claims on personal resources, conservatives reject even modest steps to reduce hardship through the expansion of opportunity and redistribution of income.

Centrally planned economies instituted by authoritarian governments of course represent the antithesis of freedom. However, the prudent reallocation of economic resources to serve democratically designed and clearly defined goals may have opposite and desired results. With rising affluence it has become conceivable that a free electorate would voluntarily surrender some portion of its economic freedom. As but one example, a payroll tax that "robs" individuals of part of their income provides a guaranteed income to the retired generation while also expanding their options to continue working during their old age or to be relieved from the burdens of the workplace during their declining years. Devotees of laissez faire do not acknowledge this choice as rational but fail to explain how political freedoms were weakened by such restrictions on economic activity.

Opponents of federal intervention ignore the voluntary acceptance of economic restraints in part because they question the legitimacy of public decisionmaking in representative democracies. With a highly individualistic concept of freedom, any form of collective action, even when initiated and ratified through democratic processes, is equated with force and tyranny. As one observer described the conservative's definition of freedom,

> The market offers freedom: if you like Ultra-Glop toothpaste, no one can force you to buy Presto-Goo instead. Government, in contrast, means coercion: if you want your taxes spent on street repairs but a majority of your neighbors are more concerned about fire protection, your dollars are enslaved and shipped off to fill the coffers of the fire department against your will . . . . Buying and selling are freedom; voting and planning are slavery.[9]

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The irony is that, by denying the legitimacy of government decision-making right-wing ideologues denigrate the very political freedoms they purport to defend. Rather than viewing freedom as the opportunity to participate in public decisions, conservatives laud an anarchic independence that makes a mockery of political participation and collective action through democratic means.

Conservative endorsements of unrestrained freedom to pursue individual self-interest may well be self-defeating in a modern era. As Robert Reich has stressed, a philosophy that relies upon the motivational force of greed and fear, allowing no substantial tempering of the extremes of affluence and deprivation, necessarily undermines the potential for cooperation in advanced societies:

> A society that offers both the prospect of substantial wealth and the threat of severe poverty surely will inspire great feats of personal daring, dazzling entrepreneurialism, and cutthroat ambition. But just as surely it may reduce the capacity of its members to work together toward a common end. The conservative promise of prosperity is an ideology suited to a frontier economy in which risk-taking is apt to be more socially productive than cooperation, but it is hardly appropriate to an advanced industrial economy in which collaboration is critical.[20]

The complex social and economic problems of the 1980s cannot be addressed unless American society has the capacity to decide collectively what needs to be done and to marshal the resources to do it. By casting government action as a threat to liberty, conservatives impede the nation's progress.

OPPORTUNITY VERSUS EQUALITY OF RESULT

The confusion and misrepresentations of conservatives are nowhere more evident than in the debate between equality of opportunity and equality of result in the modern welfare state. Accepting the goal of equality of opportunity, the serious and legitimate debate in mainstream American politics turns on the question of the appropriate steps that should be taken to promote and ensure this equality and the speed with which it is to be attained. At a minimum, equality of opportunity requires the protection of basic civil rights, the elimination of discriminatory practices in the economy, and universal access to public services. Yet equal opportunity may remain elusive for segments of society unless the effects of past and present discrimination are offset through more active government interventions. For this reason numerous policy initiatives over the past two decades have attempted to meet basic human needs and to provide remedial or compensatory aid through employment, training, and affirmative action programs as a means of opening both entry-level jobs and opportunities for advancement.

Critics of the welfare system consistently attempt to portray federal interventions and regulations as insatiable drives toward radical income redistribution. Although the subject of frequent philosophical debate, a strict egalitarian goal has never been the intent of American public policy, nor has it been embraced by major political leaders or parties in the United States. Nonetheless, opponents of federal intervention insist that the modern welfare state pushes society inevitably

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toward an unattainable equality of result and that social welfare programs are designed to serve that illusory goal. The perceived link between egalitarianism and the expansion of government responsibilities has become a central theme in modern conservative thought, buttressing the conclusion that poverty is inevitable in a free and equitable society.

The preoccupation of conservatives with egalitarian thought is pervasive and frequently indistinguishable from liberation doctrine. They have claimed that "liberalism pushes with increasing aggressiveness for equality," abandoning "America's unique meritocratic tradition that for generations has rewarded achievement and fostered social mobility."[11] Simon identifies striving for equal opportunity with "equality of outcome," which he insists requires that everyone "finish the race at the same time . . . in clear conflict with liberty."[12] The United States, according to the Friedmans, has become "purely and simply a redistributionist state, endlessly shaking down Peter to pay Paul," a nation in which "leveling" is the dominant goal.[13]

By linking social welfare programs and egalitarianism, conservative ideologues portray federal intervention as antithetical to meritocratic norms. They attempt to fan public fears of injustice at every turn, trying federal social welfare efforts to egalitarian ideals which

> Wrest the rewards away from those who have earned them and give them to those who have not. . . . The more one achieves, the more one is punished; the less one achieves, the more one is rewarded. Egalitarianism is a morbid assault on both ability and justice. Its goal is not to enhance individual achievement; it is to *level* all men.[14]

These assaults on federal intervention make no mention of the role of the state in shaping earning opportunities in the marketplace nor of the large measures of luck that combine with effort and talent to determine personal income.

A policy the goal of which is to achieve equality of result would be subject to challenge on both moral and pragmatic grounds. Henry Hazlitt has articulated the moral objection to such a policy:

> If you claim a "right" to an income sufficient to live in dignity, whether you are willing to work or not, what you are really claiming is a right to part of somebody else's earned income. What you are asserting is that this other person has a duty to earn more than he needs or wants to live on, so that the surplus may be seized from him and turned over to you to live on. This is an absolutely immoral proposition.[15]

In addition to the perceived inequity of these transfers conservatives lament the "assault on earned dignity" which detaches achievement from deserts, robbing those with ability and motivation of the pride and distinction that would otherwise accompany their efforts.[16] Redistributive policies, therefore, are judged to be both wrong and counterproductive.

Conservatives create a classic straw man when they attempt to cast liberal social welfare policies as a denial of differences in achievement or a threat to meritocratic rewards. Federal social welfare programs since the early 1960s have sought to expand opportunity and minimize the hardships of the unfettered market through modest reductions in

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income inequality, never seeking or endorsing the unattainable equality of result. Federal intervention during this period has increased because most Americans distinguish between government intervention to expand economic opportunity or to meet basic needs and broader attempts to redistribute income.

Although a majority of Americans profess a dislike for big government in the abstract, they continue to support a major federal role in seeing that the poor are cared for, that no one goes hungry, and that every person achieves a minimum standard of living. A 1981 Harris Survey showed Americans favoring federal responsibility in these areas by 72 to 26 percent. More recent polls continue to provide evidence of support for federal employment, training, health care, and education programs, despite Reagan administration assaults on these programs.[17]

There are limits beyond which the tax burden required to support social programs might stifle achievement and initiative by dramatically reducing rewards for individual effort. The 1981 personal income tax cuts were rooted in the claim of supply-side economics that progressive federal tax and transfer policies had already reached this counterproductive stage and that reductions in marginal tax rates would increase economic growth as well as government revenues. The anticipated boom in economic activity and subsequent tax revenues has not materialized, creating the ominous prospect of huge and lasting federal deficits which could impair future economic growth. The results of the Reagan experiment certainly do not suggest that social programs have deprived the affluent of the fruits of achievement in order to open opportunities for the less fortunate.

If the welfare state stifles achievement and deprives individuals of the fruits of their labor, it does so among the working poor rather than the affluent. The Reagan administration's social welfare policies have been properly criticized because they presume that the rich can be enticed to work harder with a carrot while the poor require a stick. The prohibitively high marginal tax rates that President Reagan has imposed on welfare recipients foreclose numerous opportunities for advancement through individual effort. In the process conservatives have come far closer to insisting on equality of result than any prior federal social welfare initiatives, foreclosing opportunities of many impoverished Americans to raise their meager incomes regardless of how hard they work.

POVERTY—A FIGMENT OF IMAGINATION?

Beyond their visions of tyranny and egalitarianism, conservatives invoke a wide range of arguments to bolster their claim that poverty is inevitable. George Gilder has concluded that "there will be poverty in America for centuries to come."[18] President Reagan has long associated the persistence of poverty with "the inadequacy of human nature" and assailed proposed federal remedies as "untried theory packaged as Utopia."[19] His administration has stressed the superiority of free markets over the imperfections of government interventions in resolving conflicts, echoing assertions made by Governor

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Reagan in the 1960s that "big government . . . is incompetent to deliver many of its promises."[20] These claims ignore the potential for refining federal interventions and thereby making incremental gains in the fight against poverty. Deprivation and hardship are posed as facts that the nation must accept, unfortunate but unavoidable realities about the way the world works.

Conservatives assuage their conscience by insisting that the poverty problem is not as bad as it seems. Repeating a constant refrain, Simon contended that poverty is in part an invention of "new class" liberals whose livelihood depends upon an ever-growing population served by social programs.[21] A similar questioning of motives and integrity is reflected in charges that proponents of aid to the poor are guided by envy of the rich rather than by objectively and compassion. President Reagan has suggested repeatedly that poverty and welfare dependency is perpetuated by bureaucrats and program administrators who enhance their own wealth and importance at the expense of the truly productive.[22] It is as though census data showing that poverty has been on the rise since 1978 and that some 34 million Americans live in poverty are not adequate and legitimate cause for concern.

Reports of growing hunger are similarly dismissed. Despite a large increase in the number of privately organized and operated food assistance outlets and an increase in the number of people who seek help from them, the Reagan administration proposed sharp reductions in food assistance in the midst of a deep recession. President Reagan's Task Force on Food Assistance, noting that hunger does persist, still claimed that administration-proposed cutbacks were not responsible, and administration officials have accused those standing in soup lines of ripping off food giveaway programs while their cupboards remained full. The task force's primary remedy—additional business tax breaks for donations combined with tighter eligibility requirements for food aid recipients—certainly belies the administration's professed "deep concern" for the hunger problem.

In recent years opponents of government intervention have attempted to discredit or explain away official statistical measures of unemployment and poverty. Emphasizing the value of federally subsidized food stamps, housing, medical care, and other in-kind benefits not considered in government data, some critics of the welfare system have declared victory in the war on poverty, precluding the need for further efforts.[23] Yet the Census Bureau estimates of the value of in-kind assistance to the poor suggest that poverty certainly has not disappeared from our midst. Depending upon the methodology used in making estimates, the number of poor in the United States in 1982 is reduced by between 9 and 33 percent from official levels when in-kind transfers are counted as income. However, the same study found that poverty increased by 47 percent (from 6.8 to 10 percent) between 1979 and 1982 even after the inclusion of noncash benefits—a rate well above the official 28 percent increase in poverty when cash income alone is considered. As a result of the 10.4 percent decline in the average market value of noncash benefits between 1979 and 1982, these benefits were significantly less effective in reducing poverty in 1982 than three years earlier.[24]

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The hypocrisy of conservatives who claim the war on poverty has been won and subsequently endorse cuts in federal social welfare programs is blatant. In the absence of any federal aid to the poor, 23 percent of all Americans would have lived in poverty in 1981, compared to the official rate of 14 percent.[25] For nearly one in ten Americans federal social welfare programs provided the added income necessary to lift their households out of poverty. Federal in-kind benefits brought relief from deprivation for additional millions with cash incomes below the poverty line. The refinement of official poverty statistics provides further evidence that federal intervention has succeeded in alleviating hardship and offers no basis for reducing federal social welfare expenditures without reversing past gains.

The very effectiveness of federal welfare programs has also encouraged opponents of federal intervention to explain away rising unemployment rates as more tolerable and more natural than in prior eras. In defense of sharp increases in joblessness under the Reagan economic program, his administration argued that the lowest unemployment rate compatible with stable prices has risen substantially during the past two decades, the result of demographic changes as well as the "behavioral and reporting effects" of social programs on the measured unemployment rate.[26] President Reagan has advanced the parallel claim that the "normal unemployment rate—which is based on . . . the people who are between jobs or have quit a job to try for another one, this sort of thing—may, instead of being the 4 percent that we used to talk about, it may be 6 or 6½ percent." [27] The thrust of these claims is to suggest that higher rates of unemployment are not "a reflection of a bad economy," but rather represent natural changes in the labor market that offer no cause for alarm.

The notion that frictional unemployment necessarily leaves at least 7 million Americans without work is grossly misleading. While research findings suggest that the availability of unemployment insurance and other social welfare benefits is responsible for a small rise in the underlying unemployment rate, joblessness can be plausibly reduced to below 5 percent if appropriate action is taken to remove obstacles to employment. Joblessness far above this level cannot be attributed to voluntary job changes and temporary job search and can be assumed to arise from causes that can be ameliorated through government action. Furthermore, even if one accepted the Reagan administration's view of the normal or natural rate of unemployment, this rationalization offers no excuse for its refusal to respond to record joblessness that existed in 1982 and continued at a high level during the succeeding year.

The perversity of conservative challenges to official unemployment statistics again lies in their desire to reduce or eliminate the very social welfare benefits that they contend make high unemployment rates tolerable. Asserting that efforts to eliminate curable poverty have been successful, advocates of retrenchment justify their position as though the victory they imagine could be permanent. The fact is, however, that the bulk of progress in alleviating deprivation in modern America has come through federal income transfer programs, and the Reagan administration's budget cuts have already demonstrated that reduc-

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tions in this aid lead to increases in poverty. If conservatives truly believed that the plight of the poor has improved, they would be obliged to support the programs that have facilitated such gains. Few have proved so consistent in their approach to poverty and social justice in the United States.

INDIVIDUAL CHOICE AND SOCIAL CHANGE

Social change necessarily challenges established values and institutions. Conservatives find it tempting to blame government programs for the evolutionary processes that they find threatening, even when the link between federal efforts and social change cannot be established. Anticipating disastrous consequences from contemporary trends, they prefer the certainty that government will not accelerate change to any benefits that federal intervention might bring. In so doing conservatives place themselves in opposition to not only government responsibility for social welfare but also the legitimacy of personal choice in a free and open society.

The social changes that conservatives lament are the products of diverse individual decisions made by millions of Americans. Whether to end a marriage, accept income tansfers, or relinquish religious and cultural ties are difficult and painful personal choices seldom taken lightly. In some instances government intervention has established perverse incentives, forcing families to dissolve in order to subsist or rendering welfare more attractive than work. However, in most cases conservatives simply dislike the individual value judgments reflected in patterns of social change. By seeking to preserve the status quo they are forced to deny the sanctity of personal choice which they presumably revere.

It is important to recognize that the detrimental impact of social change is not as evident as conservatives would have us believe. Does the moral degradation of welfare dependency impose more hardship than material deprivation? Were the strained marriages of yesterday necessarily better than the pain and turmoil of today's divorces? Did the closely knit organic communities of the past offer a more hospitable environment for the poor than the current welfare system? In each case conservatives glorify old patterns and practices while ignoring the compensating advantages of social change. A more objective view would document gains as well as losses, citing the freedoms and benefits of emerging institutional arrangements while remaining cognizant of the price that has been paid for them.

Conservatives' resistance to the cumulative results of personal choice is closely related to their portrayal of poverty as a moral problem. Despite their laissez faire ideology opponents of government intervention are reluctant to view low-income Americans as capable of rational decisions that promote their well-being. The poor presumably are irresponsible and unable to make prudent judgments or shun immediate gratification for long-term benefit. Hence, the choices made by low-income persons regarding their families, incomes, and future prospects allegedly tend to run counter to both the national interest and their own narrow self-interest. Conservatives believe that unless the decisions of

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the poor are altered, government aid to them may only accelerate their demise.

The logical conclusion, if one follows this line of reasoning, is an endorsement of paternalism sharply at odds with a commitment to individual freedoms. Indeed, the refusal to accept the legitimacy of the choices the poor make negates traditional conservative views. True to the conservative creed, Reagan administration economists have explicitly rejected a paternalistic approach to the needs of the poor:

> Paternalism occurs when the government is reluctant to let individuals make decisions for themselves and seeks to protect them from the possible bad effects of their own decisions by outlawing certain actions. Paternalism has the effect of disallowing certain preferences or actions. This Administration rejects paternalism as a basis for policy. There is no reason to think that commands from government can do a better job of increasing an individual's economic welfare than the individual can by making choices himself. Moreover, the long-term cost of paternalism may be to destroy an individual's ability to make decisions for himself.[*]

Nonetheless, the administration has challenged the ability of the poor to make crucial decisions regarding their families, dignity, and future well-being, contending that social welfare programs induce low-income Americans to act contrary to their best interests.

One need not cast the poor as incompetent to account for their plight. Evidence of unequal opportunity and barriers to economic advancement in contemporary labor markets provides ample basis for an alternative view of poverty and dependence—one that avoids paternalism and respects the integrity of personal choice. The contradictions of laissez faire advocates strongly suggest that their opposition to federal intervention in aid of the poor is rooted more in their apprehension of social change than in a realistic appraisal of the nature and causes of poverty. Given a different set of value judgments—ones that place social progress and justice before the protection of vested interests—the importance of federal intervention in aid of the poor cannot be denied.

POVERTY AND DEPENDENCY—AN ALTERNATIVE VIEW

A realistic account of work and poverty in the United States should begin with an acknowledgment that the great majority of the poor do not lack work motivation. Although unwillingness to work poses a threat of dependency within a small segment of the welfare population, most impoverished adults face numerous barriers to employment and advancement, including aggregate job deficits, educational deficiencies, geographic isolation, discriminatory employment practices, lack of prior work experience, and a perverse welfare structure that frequently discriminates against the working poor. A large portion of those living in poverty already work, many in full-time jobs, but the low wage rates that prevail in secondary labor markets are inadequate to lift the working poor above the poverty threshold. Because work and poverty are not mutually exclusive, only government policies that combine work and welfare can adequately address the needs of the low-income population.

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While the poor in general seem to have as much of a commitment to work as do higher income groups, they are not oblivious to rational calculations regarding the returns of work and the marginal utility of income versus leisure. Without accepting the conservative conclusion that welfare benefits are too generous, one can still share the concern of welfare critics that high marginal tax rates for the poor have the potential for creating a "poverty wall" which "destroys their incentive to work and sentences them to a life of dependency on the government dole." [29] The experience of the past two decades suggests that income transfers can alleviate poverty by placing a floor of minimum benefits beneath the poor, but in the absence of initiatives to tap their work motivation too many of them will find a steady, albeit minimal, source of income preferable to the uncertainties of low-paid work. Welfare policies can avoid the no-win choice between deprivation and dependency only if they are structured to provide rewards for work effort and if they are accompanied by programs to promote work opportunities.

Opponents of government intervention who harp on the motivation of the poor seldom acknowledge that their willingness to work has never been tested in peacetime through the aggressive expansion of employment opportunities. Although Great Society rhetoric placed a strong emphasis on opportunity, transfer payments and in-kind assistance far surpassed expenditures on education, thaining, employment, community organization, and social service initiatives, leaving the potential for expanded work experience among the poor largely unrealized. This pattern has been repeated in more perverse fashion during the Reagan administration: despite its presumed commitment to opportunity as an alternative to welfare dependency, the administration's opposition to spending for employment, education, and social services has left federal domestic activities increasingly dominated by cash transfer and health-financing programs.[30] Even as social spending has grown steadily, opportunity has taken a back seat to income maintenance.

Given the absence of opportunities and the limited rewards for work when jobs are available, it is perhaps surprising that the poor have not responded to subsistence benefits and high marginal tax rates by dropping out of the labor force in far greater numbers. Research findings suggest that when welfare recipients are faced with benefit reduction rates of less than 100 percent, their work effort is affected only moderately by variations in benefit levels and marginal tax rates.[31] This commitment to work has been exploited by the Reagan administration, which has reduced the returns from labor for those on AFDC while relying on the strength of the work ethic to stem the shift toward greater dependency and higher long-term welfare costs. A more compassionate and constructive policy would tap the desire and willingness of the poor to work by bolstering job availability, strengthening the education and training opportunities that contribute to upward mobility, and supplementing low wages in secondary labor markets.

The existing welfare system gives partial recognition to the interrelationships between work and welfare, helping many Americans and allowing some flexibility for movement in and out of the labor market. Yet sharp restrictions on aid to the working poor still confine some

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recipients to dependency and threaten to create a permanent underclass. A public policy that expects low-income Americans to make rational calculations regarding the costs and rewards of work as compared to welfare must ensure that work is more renumerative than welfare. Past federal approaches to combat poverty have fallen far short of this fundamental goal.

To minimize conflicts between work and welfare, federal programs in aid of the poor must recognize the limitations of private labor markets in offering employment opportunities that permit the unemployed and the working poor to escape poverty. The world of opportunity, upward mobility, and adequate wages envisioned by conservatives does not exist for large segments of the low-income population. A commitment to work and self-sufficiency through government initiative would represent a sharp departure from the rhetoric of those who, in Peter Edelman's words, "would engage in further punishment of the millions who lack skills or, having skills, lack the possibility of obtaining employment because there are not enough jobs to go around." [33] Yet this is the task that remains before the nation, for it is the barriers to advancement and self-support in the labor market, not the ministrations of government, that most directly hinder the rise from poverty in modern America.

NOTES

1. William Graham Sumner, *What Social Classes Owe To Each Other* (New York: Harper and Bros., 1883), p. 15.
2. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).
3. Ludwig von Bises, *Bureaucracy* (New Haven: Yale University Press, 1944).
4. Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanov'ch, 1980), p. 58.
5. *Economic Report of the President, 1982* (Washington, D.C.: U.S. Government Printing Office, February 1982), p. 27.
6. Ibid., p. 28.

ECONOMIC CHOICES 1984

Alice M. Rivlin (Ed.)

Helping the Poor

AMERICANS live comfortably in comparison with the rest of the world and with earlier generations in their own country. But not everyone shares in the general affluence. In 1982 more than 34 million people—about 15 percent of the population—had incomes below the government's official poverty line. Between 1979 and 1982 the percentage of the population in poverty rose steadily to the level of the mid-1960s.

Moreover, the chances of being poor are not passed out randomly. In 1982, 12 percent of whites were poor, compared with 36 percent of blacks and 30 percent of Hispanics. Families headed by a woman were far more likely to be poor than other families. Indeed, for some groups, poverty was the norm rather than the exception. More than 70 percent of the children living in families headed by a black woman were poor.[1]

In previous chapters, we have urged that high priority be given to policies designed to keep the economy growing at a healthy rate. Growth not only raises the average standard of living; it also makes it easier to finance government services, find new opportunities for dislocated workers, and assist the poor.

But significant reductions in poverty will not be automatic even if growth is sustained. To be sure, some of the recent

Alice M. Rivlin undertook primary responsibility for drafting this chapter.

1. U.S. Bureau of the Census, *Current Population Reports*, series P-60, no. 144, "Characteristics of the Population Below the Poverty Level: 1982" (Government Printing Office, 1984), p. 8.

increase in poverty is related to the 1980–82 recession and will be reversed as the economic recovery proceeds. But poverty is now heavily concentrated in groups that are not likely to share automatically in the greater general prosperity, especially minorities and women with children.

A major challenge to public policy, then, is to find ways of ensuring that the fruits of economic growth can be more widely shared. The United States should not tolerate a permanent underclass that is shunted aside as the rest of the population improves its standard of living. This brief chapter serves to highlight the problem and to suggest some solutions.

Measuring Poverty

Since the 1960s, when the United States rediscovered the paradox of poverty in an affluent society, the government has kept a count of those whose incomes fall below an official poverty line.[2] The government's definition of poverty income is adjusted for type and size of family and for changes in the cost of living. Income is measured before taxes and includes cash transfer payments, such as social security and welfare, but not in-kind benefits, such as food stamps.

By this measure, over 22 percent of the total population lived in poverty in 1960 (see table 7-1). The incidence of poverty dropped quite rapidly in the 1960s and more slowly in the early 1970s. By 1974 only about 11 percent of the population lived below the official poverty line.

These quite dramatic reductions in poverty resulted from a combination of strong economic growth and increased transfer payments. Through most of this period real wages were rising and unemployment was declining. Social security benefits increased substantially, contributing to the reduction of poverty among the aged, and transfer payments aimed specifically at the poor grew.

Progress against poverty was interrupted by the 1975–76

2. That line was initially defined by taking what nutritionists in the Department of Agriculture determined to be the cost of an "economical" diet for a family of four and multiplying that figure by four, since in the early 1960s it was thought that roughly a quarter of a family's income was spent on food.

Table 7-1. *Percentage of the Population below the Poverty Level, 1960–82*

Year	*Percent*	*Year*	*Percent*
1960	22.2	1971	12.5
1961	21.9	1972	11.9
1962	21.0	1973	11.1
1963	19.5	1974	11.2
1964	19.0	1975	12.3
1965	17.3	1976	11.8
1966	14.7	1977	11.6
1967	14.2	1978	11.4
1968	12.8	1979	11.7
1969	12.1	1980	13.0
1970	12.6	1981	14.0
		1982	15.0

Sources. For 1960–64, U.S. Bureau of the Census, *Current Population Reports*, series P-60, no. 68, "Poverty in the United States: 1959 to 1968" (Government Printing Office, 1969), p. 26; for 1965–82, *Current Population Reports*, series P-60, no. 144, "Characteristics of the Population Below the Poverty Level: 1982" (GPO, 1984), p. 7.

recession and was slow for the rest of the decade. The proportion of households with cash incomes below the poverty line in 1979 was only half a percentage point lower than a decade earlier. The lack of improvement in the 1970s was related to slow economic growth, rising unemployment, and high inflation, although these negative factors were offset by continued increases in real cash transfers.

The decline in poverty was dramatically reversed after 1979: the poverty rate rose about 1 percentage point each year from 1979 through 1982. The rate in 1982, the last year for which complete figures are available, was the highest since 1965.

The 1980–82 recession was longer (though no deeper) than the recession of 1975–76, but it had a much more serious impact on poverty than did the earlier recession. Growth in the real value of cash transfers cushioned the impact of the 1975–76 recession. In the most recent recession, cuts in the real value of those benefits aggravated the effect of unfavorable economic conditions on the poor. A substantially higher fraction of the unemployed received unemployment insurance benefits in 1975–76 than in 1980–82.[3] While real increases in social security

3. Testimony of Gary Burtless before the Subcommittees on Oversight and on Public Assistance and Unemployment Compensation of the House Committee on Ways and Means, October 18, 1983.

benefits protected the aged from increases in poverty, the assistance relied on by many of the nonelderly poor was reduced in real terms. The average value of the public assistance (aid to families with dependent children and general assistance) received by a poor family rose 5 percent after inflation between 1974 and 1977; that value declined 17 percent between 1979 and 1982.

Since the distribution of income other than transfers appears to be increasingly unequal, even a period of sustained growth may not lead to reductions in poverty in the future unless the recent declines in the real value of means-tested cash transfers are reversed.[4]

The official poverty line is a crude measuring instrument and numerous efforts have been made to refine it. One set of refinements designed to provide a more accurate indication of changes in the well-being of the low-income population includes in-kind benefits in the definition of income used to determine poverty. Considering only cash incomes gives an incomplete picture of changes in poverty, since government aid to the poor in the form of food stamps, housing, and medical care benefits has increased substantially since the 1960s.[5]

It is not clear how noncash benefits should be valued, however, since their market value (the cost the government has to pay) may be greater than their value to the recipient (what he would actually have spent if given money rather than the in-kind benefit). Several alternative valuation methods have been suggested.

Not surprisingly, inclusion of in-kind benefits in income reduces the incidence of poverty no matter what valuation

4. One recent study finds that over 1967–79, rises in incomes reduced poverty 2.4 percentage points and changes in the shape of the income distribution increased poverty 2.9 percentage points; both of these effects were dominated by the 3.1-percentage-point reduction attributable to growth in real transfers. Over 1979–82, the comparable figures are 0.8, 2.9, and −0.4 percentage points, respectively; the transfer effect was overwhelmed. See Peter Gottschalk and Sheldon Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty" (University of Wisconsin–Madison, Institute for Research on Poverty, September 1983), p. 21.

5. Cash benefits accounted for 76 percent of all means-tested assistance to the poor in 1965, while noncash benefits accounted for the remainder. By 1982, those proportions were nearly reversed: noncash benefits were 64 percent of means-tested assistance, while cash benefits amounted to only 36 percent of the total.

Table 7-2. *Percentage of the Population below the Poverty Level, Adjusted for In-Kind Transfers, Selected Years, 1965–82*

Year	Percent[a]
1965	12.1
1968	9.9
1970	9.3
1972	6.2
1974	7.2
1976	6.7
1979	6.1
1982	8.8[b]

Source: Timothy M. Smeeding, "The Anti-Poverty Effect of In-Kind Transfers: A 'Good Idea' Gone Too Far?" *Policy Studies Journal*, vol. 10 (March 1982), p. 510.

a. Includes adjustment for simulated value of taxes and income underreporting.

b. Estimate from Peter Gottschalk and Sheldon Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty" (University of Wisconsin–Madison, Institute for Research on Poverty, September 1983), p. 13.

method is used. If food, housing, and medicaid benefits are valued at their full market value, only 10 percent of the whole population in 1982 would have been counted as poor, rather than the 15 percent counted by only cash incomes.[6]

The pattern of changes over time, however, is not greatly affected by the inclusion of in-kind benefits, no matter how they are valued (see table 7-2). On any measure, the incidence of poverty declined substantially between the 1960s and the early 1970s as economic growth reinforced the effects of increased cash and noncash assistance to the poor. For the balance of the 1970s poverty changed little, as the negative effects of slow growth and relatively high unemployment were offset by continued increases in cash and noncash transfers. Between 1979 and 1982 poverty increased; indeed the increase appears larger if in-kind benefits are included than if they are not.[7]

The Changing Composition of the Poor

Over the last two decades, the characteristics of the poor population have changed. A smaller proportion of the poor is

6. If an adjustment is made for value to the recipient, the comparable figure is 12.7 percent. U.S. Bureau of the Census, *Technical Paper 51*, "Estimates of Poverty Including the Value of Noncash Benefits: 1979 to 1982" (GPO, 1984), p. 3.

7. Ibid.

aged now than in the 1960s. A larger proportion is in families headed by a woman without a husband, and a smaller percentage is in families headed by a working male. These changing demographic characteristics of the poor affect the choice of appropriate policies for reducing poverty.

The Elderly Poor

The most dramatic reductions in poverty have been among the elderly. In 1967 about 30 percent of those over age sixty-five had incomes below the poverty line—more than twice the rate for nonelderly persons. The incidence of poverty among the elderly dropped precipitously in the early 1970s when social security benefits were increased rapidly in real terms, and benefits have stayed roughly constant since then. Slightly more than 14 percent of those over sixty-five had cash incomes below the poverty line in 1982—a lower incidence of poverty than for the rest of the population.

Although the elderly make up a larger portion of the total population than they did in the 1960s, they represent a smaller fraction of the poor. The proportion of the poverty population that is elderly has fallen from 19 percent in 1967 to about 11 percent in 1982.

The aged receive relatively small amounts of earned income, and their participation in the labor force and reliance on earnings have declined substantially in recent years.[8] The reduction in poverty among the elderly is attributable to increases in the cash transfer programs specifically directed at this age group, especially social security and supplemental security income (SSI). In-kind benefits, especially medicare, have also been important. Because the elderly rely heavily on transfers, they are insulated from the impact of the business cycle. The elderly are the only demographic group that experienced no rise in poverty in either the 1975–76 or the 1979–82 recession.

8. Labor force participation rates for the elderly have been nearly halved since 1960. See Bureau of Labor Statistics, *Labor Force Statistics Derived from the Current Population Survey: A Databook*, vol. 1, BLS Bulletin 2096 (GPO, 1982), p. 611. The percentage of elderly household heads receiving earnings income has fallen correspondingly, from 52 percent to 44 percent over 1974–82.

Nonelderly Poor Families

A major change in the living arrangements of Americans has occurred in the last two decades and is having an exaggerated impact on the population in poverty. The traditional husband-and-wife family is less prevalent than it used to be, while families headed by a woman with no husband have become more common. The percentage of family members living in husband-and-wife families dropped from 91 percent in 1965 to 86 percent in 1982, while the proportion living in families headed by women rose from 9 to 14 percent.

This shift is even more apparent for children under the age of eighteen: the percentage living in families headed by females nearly doubled between 1965 and 1982, while the proportion living in two-parent families fell from 90 to 80 percent.

This shift may be viewed with alarm as reflecting a breakdown of traditional values or more positively as reflecting increased freedom and opportunity for women, but there is no question that it has changed the nature of the poverty problem. Women who head families are less likely to be in the labor force than men, and they have substantially lower earnings. They are much more likely to be poor. Increasingly, statistics reveal the "feminization" of poverty.

In the 1960s most poor families were headed by husbands or other males. Many of these men were employed at low-wage jobs and did not earn enough to keep their families out of poverty. Rising wage levels reduced the incidence of poverty among these families and, combined with the changing family structure for the whole population, substantially reduced the proportion of poor families with male heads.

The percentage of poor persons in families headed by a male was reduced by roughly one-third from 1960 to 1979, falling from 80 to 53 percent. The proportion of poor persons in families headed by a working male also fell dramatically over the same period, from 67 percent to 34 percent. Since 1979 poverty among families headed by males has increased again, but this increase may have been a recession phenomenon and will probably be reversed if growth continues.

The incidence of poverty among households headed by females fell slowly over 1960–79 and rose again in 1979–82. The proportion of all families headed by women was rising in this period and the proportion of poor families with female heads rose even faster. Forty-three percent of all poor families were headed by nonelderly women in 1982.

For blacks, the figures are even more striking. More than two-thirds of poor black families are headed by women. Three-fourths of poor black children live in such families.

Like the aged, poor households headed by females depend heavily upon transfers for the income they receive. The transfer programs upon which these households rely—primarily AFDC and some forms of general assistance—have not maintained their real dollar value as well as those upon which the elderly rely. Thus, even though both the elderly and households headed by females depend heavily upon transfer income, poverty rates for the former group continued to fall through 1982, while the rate for the latter went up after 1979.

The feminization of poverty is a worrisome trend, since economic growth alone is unlikely to have a major impact on this group. One study of the means by which families escape poverty found that a female family head was only half as likely as a male family head to end a spell of poverty because of increases in the head's earnings. Conversely, female family heads left poverty more than three times as often as male family heads as a result of increases in unearned (transfer) income.[9]

Policies to Reduce Poverty

The lessons of the last few years make clear that recession can make poverty worse, especially if transfer programs are restrained at the same time. But the composition of the low-income population gives little reason to expect a substantial decline in poverty even if growth is sustained. The group that makes up the largest and fastest-growing share of the poverty

9. Mary Jo Bane and David T. Ellwood, "Slipping Into and Out of Poverty: The Dynamics of Spells," National Bureau of Economic Research Working Paper 1199 (Cambridge, Mass.: NBER, September 1983).

population—families headed by females—will probably experience little reduction in poverty from economic growth alone. One study finds that with exclusive reliance on growth rather than some combination of growth and transfers to reduce poverty, it may take as long as eleven years to get poverty rates back down to where they were in 1979.[19] That is too long.

In the short run the most direct approach to easing the plight of the poor is to increase benefits going explicitly to poor people, especially those programs that have failed to keep up with the cost of living. Benefits could be targeted to those most in need without major restructuring of current programs. Several transfer options are described below, together with a proposal for shifting more of the cost of support of low-income children onto the absent parent.

Although cash transfers may be the most direct way to reduce poverty, they are not necessarily the most desirable in the long run, from either the point of view of the poor or that of the taxpayer. It would be far better to help the poor acquire the skills and the opportunities they need to be self-supporting. However, training and job placement programs for the poor have had mixed success in the past and are unlikely to produce positive results if unemployment is high. In the growing economy that we hope will result from improved economic policy, however, new efforts should be made to increase the chances that more of the poor can become self-supporting.

Some of these proposals will require considerable expenditures by the federal government. The plan we have offered in earlier chapters for reducing the deficit includes sufficient funding to allow programs for the poor (AFDC, food stamps, and SSI) to be maintained at their real 1982 value. We believe that more needs to be done, as we suggest below, but in the interest of keeping deficits down, we believe that further expenditures should be financed by additional tax revenues or savings from other areas of the budget.

19. Gottschalk and Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," p. 30. They used a model based on some rather optimistic assumptions (sustained 3 percent per year real growth in GNP and transfers maintained constant at 1982 levels).

Transfer Programs

The following four proposals would reduce poverty directly by increasing benefits for those who are especially needy or are excluded from present programs.[11]

1. Establish a national minimum benefit for AFDC. AFDC benefit levels vary greatly among states. Even when combined with food stamps, benefit levels in low-benefit states are far below the poverty line. Bringing the combined AFDC and food stamp benefits for a family with no earnings up to three-fourths of the poverty line would directly increase the incomes of about a million and half families with children at a combined state and federal cost of $2 billion to $3 billion.

2. Increase food stamp benefits. An uncomplicated way to increase the income of a broad range of low-income people quickly would be to raise the maximum benefit for food stamps, now set well below the poverty level. Food stamps are available to almost all poor households, including many who are ineligible for public assistance because they contain two parents or do not include children. Raising the food stamp maximum payment by $4 per month per beneficiary would cost about $1 billion.

3. Cover low-income families with children under medicaid. Many poor families with children are not eligible for medicaid because they do not qualify for public assistance. These include working poor families with two parents and AFDC families who have worked their way off welfare but still have incomes too low to provide adequate health care for their children. Extending medicaid coverage to all families with children and incomes below the poverty line would cost the federal government about $6 billion a year and the states another $5 billion under present cost-sharing arrangements, but even a more limited program would be of substantial help to needy families and might improve the health of children in low-income families.

4. Increase the earned-income tax credit. Although the federal

11. Testimony of Rudolph G. Penner before the Subcommittees on Oversight and on Public Assistance and Unemployment Compensation of the House Committee on Ways and Means, October 18, 1983.

income tax largely exempts those with income below the poverty line, increased reliance on payroll, sales, and property taxes at the federal, state, and local levels has increased tax burdens on the poor in recent years. The fact that the earned-income tax credit is not indexed has eroded that form of assistance for the working poor. When tax rates were cut across the board in 1981, no mention was made of the earned-income tax credit. In addition, while automatic indexation of income tax brackets is set to begin in 1985 to adjust for future inflation, no such provisions have been made for the earned-income tax credit.[12] An immediate upward revision of the credit to adjust for past inflation and permanent indexing would seem the logical remedy.

Part of the cost of increasing assistance to low-income families with children could be offset if a more vigorous national effort were made to require absent parents to contribute to the support of their children. One such proposal has been called the social child support program (SCSP).[13] The SCSP would reduce some of the complications and cost of the present welfare system by shifting some of the burden for the child's support onto the absent parent. A simple payroll deduction (scaled to income) from the absent parent's wages would be supplemented with a federal subsidy should the revenue fall below a certain minimum. The SCSP effectively nationalizes what a number of states already do: require absent parents to pay for child support. A federal program along these lines would have two distinct advantages over a myriad of state plans: first, an absent parent could not evade financial responsibility by moving to another state; and second, the Internal Revenue Service and social security mechanisms could be employed to locate noncustodial parents and enforce payment in a way states are unable to do presently. The potential savings in AFDC payments resulting from national implementation of the SCSP could be as high as $1.5 billion.

12. See *General Explanation of the Economic Recovery Act of 1981 (H.R. 4242, 97th Congress; Public Law 97-34)*, prepared by the Joint Committee on Taxation, 97 Cong. 1 sess. (GPO, 1981), pp. 20–32, 38–40.

13. For a more detailed explanation of the program, see Irwin Garfinkel, "The Role of Child Support in Antipoverty Policy," IRP Discussion Paper 713-82 (University of Wisconsin–Madison, Institute for Research on Poverty, October 1982).

Training and Work

In an improving economy with declining unemployment rates, well-designed job training and placement programs stand a better chance of success than they would have in a low-growth economy with high unemployment. We believe a major new effort should be made to try new approaches to helping low-income people move out of poverty through employment. Efforts should be concentrated on teenagers and low-income mothers.

If the economy continues to grow and unemployment declines, the next few years will offer an unusual opportunity to break the cycle of poverty by concentrating on improving the education, training, job experience, and motivation of young people from low-income families. The opportunity arises from the fact that there will be fewer young people entering the labor force than there have been in recent years. Hence it should be easier for new entrants, including those from low-income families, to find jobs.

Young people, typically from families headed by females, now represent a significant part of the poverty population. Some of them make it into the mainstream of American society, but many have dim futures: they drop out of school with few skills and little ability to compete for jobs; a substantial fraction are functionally illiterate; and many are teenage girls who have become mothers themselves. Unemployment rates for these low-income teenagers are appallingly high. Young people without job skills (and with children themselves) quickly become the next welfare generation.

Yet relatively little emphasis has been put on helping this age group. Compensatory education has focused primarily on preschool and elementary school children. Summer job programs for youths have had some success, as have some in-school programs. But in recent years high unemployment rates and competition from large numbers of better-skilled, better-educated young people have stacked the deck against disadvantaged teenagers. The next few years could be different, however. Unlike the 1970s, when especially large numbers of young people entered the labor force, the late 1980s and early

1990s will see unusually small numbers of new entrants. If general unemployment declines, intensive efforts to improve high school education in poor areas and to help students gain work experience while staying in school may pay off in substantial reductions in the number of new families entering the poverty cycle.[14]

Studies have shown that youths who have both early employment experience and a satisfactory high school education will fare better in future employment than youths possessing only one of these job market credentials. A subminimum wage for high school students might increase job opportunities for young people, but might also provide an incentive for students to quit school and thereby lose one of these credentials. One study, the Youth Incentive Entitlement Pilot Projects (YIEPP), combined both school and work experience in an attempt to ensure that youths would obtain both credentials.[15]

The program was targeted to teenagers from low-income families, both those still in high school and those who had left school before graduation. A guaranteed job at the federal minimum wage (part time during the school year, full time during the summer) was provided so long as the youth remained in (or returned to) school and achieved satisfactory performance in both school and work. More than half of the eligible youths in each pilot area participated in the program, and despite some problems of coordination among schools, employers, and program sponsors, the results were very promising. Implementation of the program nationally could cost between $624 million and $1.8 billion. This is an expensive proposal but one with substantial potential for long-term benefits.

In addition, renewed efforts should be made to help low-

14. Growth in the share of the population aged sixteen to twenty-four will be negative through 1995. For example, over 1985–90, the number of males aged sixteen to twenty-four will fall 2.13 percent, while the number of females will fall 2.07 percent. See Howard N. Fullerton, "The 1995 Labor Force: A First Look," *Monthly Labor Review*, vol. 103 (December 1980), p. 14. Because birthrates have begun to rise again in recent years, such an ideal opportunity may not last long and may not present itself again for some time to come.

15. See William A. Diaz, Joseph Ball, and Carl Wolfhagen, *Linking School and Work for Disadvantaged Youths, the YIEPP Demonstration: Final Implementation Report* (New York: Manpower Demonstration Research Corporation, 1982) for details of the project.

income parents earn enough to move their families out of poverty. To increase the attractiveness of work to parents in families eligible for AFDC, some changes in tax policy and some new emphasis on federal job training programs will be necessary. The present income tax code provides a credit for child day-care expenses. To take advantage of this, however, a single parent must earn enough to make it worthwhile to file a tax return. In the interest of simplifying the tax system in the manner outlined in chapter 5, such a deduction should be eliminated and replaced with a universal, taxable grant to cover both formal and informal child-care and work-related expenses.

These changes will do little to reduce poverty, however, unless they are accompanied by both employment counseling and job placement efforts. The National Supported Work Demonstration was quite successful in preparing AFDC-eligible female parents for work experience, and did so at a cost roughly equivalent to that of providing public service employment under the Comprehensive Employment and Training Act.[16]

Such a supported work program would be considerably more expensive than simply providing a grant to cover child day-care expenses. The potential benefits to the individual are great, however, in terms of increased employment, hours worked, and earnings. An additional benefit accrues to society from such a program: a reduction in both welfare dependency and welfare payments. The cost of national implementation of this program could produce significant savings in AFDC, food stamp, and rental housing subsidies and thereby defray much of the program cost. These benefits and the great handicaps with which this group would otherwise enter the labor market may well justify the expense.

Conclusion

In earlier chapters, we have advocated policies to ensure sustained economic growth and an easier adjustment to growth in the coming years. Though the plight of the poor has mirrored

16. See Manpower Demonstration Research Corporation, *Summary and Findings of the National Supported Work Demonstration* (Cambridge, Mass.: Ballinger, 1980), p. 151. In fact, of four "hard-to-employ" groups, the AFDC parents fared best.

the plight of the general economy in recent years—progress in the 1960s, stagnation in the 1970s, and retrogression in the 1979–82 recession—there is no guarantee that this parallelism will prevail as the economy grows in the future.

Progress made against poverty before 1979 resulted from the combination of expanding employment opportunities and strong growth in transfer programs. Now, however, poverty is more concentrated in groups that may be unable to take advantage of the expanded opportunities that should result from simple economic growth—particularly minorities, female family heads, and unskilled youths. At the same time, transfer programs that had previously helped those with little attachment to the market economy have experienced sharp real cutbacks.

The prospects for reducing poverty solely through growth in the next few years are thus bleak. But this diagnosis suggests a prescription: creating new initiatives in job training, eliminating the barriers to work faced by the poor, and resuming real growth in transfer programs to help those still unable to earn enough to keep out of poverty. The cost of such an agenda is not insignificant, but it is a price worth paying to ensure that the economic growth we have advocated is more widely shared.

PART II.—DEBATE PROPOSITION ONE: THAT THE FEDERAL GOVERNMENT SHOULD GUARANTEE A MINIMUM ANNUAL CASH INCOME TO ALL UNITED STATES CITIZENS

GUARANTEED INCOME PROPOSALS: SOME PRO AND CON ARGUMENTS
(By Joe Humphreys)

The term "guaranteed annual income", although it has been the subject of much debate in recent years, is not very well defined. The best illustration of this lack of definition is the Family Assistance Plan (FAP), which was proposed during the 91st and 92nd Congresses by the Administration. In an address on national television on August 8, 1969, the President announced this proposal and said of it: "This national floor under incomes for working or dependent families is not a 'guaranteed income'." In hearings on the plan before the Committee on Finance of the Senate, the then-Secretary of Health, Education, and Welfare Robert Finch said: "The most widely discussed question is whether family assistance is really in fact a 'guaranteed annual income', and to this question I can emphatically answer 'No'." Some of those who vigorously opposed the proposal also considered it to be something other than a guaranteed income plan. And yet, the Family Assistance Plan was frequently characterized as a guaranteed income by others — including both proponents and opponents. In fact, one of the Administration's chief advocates of the plan, Daniel P. Moynihan, has entitled his book on the history of the Family Assistance Plan _The Politics of a Guaranteed Income_ and states in it: "The proposal _was_ a guaranteed income ..." (p. 220).

Characteristics of a Guaranteed Income

Although there is no precise definition of the term "guaranteed income", there are a number of characteristics which are commonly associated with it. The first and most obvious of these is the

Reproduced from: U.S. Library of Congress. Congressional Research Service. Guaranteed income proposals: some pro and con arguments. [by Joe Humphreys] Report no. 73-146 ED, Aug. 20, 1973. p. 1-10.

concept of providing a government payment to persons with incomes below some "needs" level. On this basis, any income-conditioned payment represents a type of guaranteed income including the existing welfare system. However, one of the most common elements of proposals which are characterized as "guaranteed income plans" is the fact that they differ in some substantial way from the existing welfare system while retaining the basic feature of a government payment based on need. One such difference which is characteristic of many "guaranteed income plans" is Federalization in any or all of three areas: administration, funding of benefits, and level of assistance (or at least a Federal minimum level of assistance).

Another characteristic is universality of coverage as contrasted with the existing welfare system in which eligibility for assistance is limited to those who have a statutorily acceptable reason for needing assistance: i.e., the aged, blind, and disabled, and children (with their mothers or other caretaker relatives) who have been deprived of support because of the death, incapacity, absence from the home of a parent or (in some 22 States) because of the unemployment of their father. Using this characteristic, the Family Assistance Plan was a guaranteed income proposal because it extended coverage to all needy families with children including families with a father working full time at wages too low to support the family; or FAP was not a guaranteed income because it restricted coverage solely to families with children, leaving the aged, blind, and disabled to be covered under a separate program and leaving other childless needy persons without coverage under any Federal cash welfare program.

Still another characteristic of guaranteed income plans relates to the presence or absence of conditions — particularly work requirements — on the granting of aid. Again, the Family Assistance Plan was not a guaranteed income plan because it required employable family members to register for employment and penalized them if they did not accept work or job training when offered; or it was a guaranteed income because acceptance of employment was not a condition of eligibility but only a requirement necessary to avoid a penalty (the reduction of the total family assistance payment by the amount attributable to the presence of the parent refusing employment).

In connection with the concept of a work requirement, the Committee on Finance of the Senate in 1972 contrasted the FAP "guaranteed income" type of work requirement with the Committee's "guaranteed employment" plan under which an employable parent would be required to earn the first $200 per month of family income by working; and, if he did not, the family would not be eligible to receive any part of that basic income from assistance. The proposal included a guarantee that sufficient work would be made available to make it possible for him to earn the $200. (However, the Committee's proposal did include some provisions for making assistance available to the children of parents who refused to work.)

In some respects, the level of assistance in relationship to some definition of adequacy is considered to be a hallmark for determining whether or not a plan qualifies as a guaranteed income. Thus, a proposal such as the Family Assistance Plan which provided

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an income of $1600 for a family of four (later raised to $2400 for a family of four in the version considered in the 92nd Congress) might be less likely to be considered a guaranteed income than the plan of the National Welfare Rights Organization which proposed a level of $6500 for a family of four.

Another feature closely associated with the concept of guaranteed income is the "disregard of income" provision found in most plans. Under this provision, the earned income (or in some plans, including the first version of FAP, any income) which the family gets from sources other than assistance does not cause a dollar-for-dollar reduction in assistance. Thus, if there is a disregard rate of 40 percent, $1000 of annual income will reduce the assistance payable to a family by only $600 with the other $400 being disregarded so that the family can enjoy some of the fruits of its earnings (and so that it will have an incentive to continue to earn.) Although the disregard provision is commonly considered to be characteristic of the guaranteed income concept, it actually is one of the aspects of most guaranteed income proposals which makes them depart from the common-sense meaning of the words "guaranteed income" since it assures that low-income families as a group will not be guaranteed a specified level of income but will have varying amounts of total income depending upon the amount of earnings they have from sources other than the "guaranteed income" program itself. Also, although the current welfare system is sometimes pictured as having no income disregard provision, it has included such a feature since the time of the Social Security Amendments of 1967, and, in fact, the disregards in the existing Aid to

Families With Dependent Children (AFDC) program are in some instances more substantial than those which were proposed in the Family Assistance Plan.

Issues Related to the Guaranteed Income

Although there has been much discussion of guaranteed income over the past few years, the debate has often focused on specific proposals rather than on the abstract (and, as noted above, ill-defined) concept itself. Given the diversity of proposals, the same argument which is used in support of one plan might be of small importance in connection with another plan or might actually be used as an argument against another plan. For example, one argument which is sometimes raised in favor of a Federal income maintenance program is that such a plan is necessary because the existing State-controlled plans provide an inadequate level of assistance. This is an important argument to those who are supporting a $6500 guaranteed annual income for a family of four; it is of far less importance as an argument in support of a $1600 guaranteed annual income for a family of four since all but a handful of States provide as much or more to families now on welfare.

1. Services vs. Income

Guaranteed income proposals are sometimes supported as representing a necessary shift of emphasis in the cure of poverty from a services strategy to an incomes strategy. It is argued that the poor by and large are not so different from the rest of the population except that they for a variety of reasons are unable to attain a fair, minimal share of the nation's prosperity. What they need therefore is not some service program or counsellor to change them into new and self-sufficient persons; what they need rather is simply money to enable them to lead a decent, dignified existence until such time as they are able to become self-sufficient. This line of argument holds that the poor are as motivated as anyone else to better themselves and can be expected, as a group, to avail themselves of any opportunities for employment which become available so as to become self-supporting. This argument also includes the belief that much of the funding required for a guaranteed income program could be found by dismantling existing programs based on a services strategy designed to change the lives of the poor but actually--in the view of those making the argument--serving primarily to support those who operate the programs.

By contrast, it is argued that it is not sound social policy to rely on human nature to strive for self-sufficiency in the face of an available source of work-free income. While society may have an obligation to care for those who are really unable to provide for themselves adequately through current work, such as the blind, aged, and disabled, it also--under this line of argument--has a responsibility to encourage and aid those who can care for themselves and become self-supporting to do so. This type of argument would be used to support the provision of services leading to employability as opposed to the provision of income, to support a categorical as opposed to universal type of welfare system, and to support the concept that income maintenance levels should not be raised to the point of becoming too attractive as an alternative to work.

2. Cost

In favor of guaranteed income proposals, it is sometimes argued that a nation as prosperous as the United States should adopt such a plan simply because it is disgraceful for such a nation to allow widespread poverty to continue to exist. This line of argument is reflected in the titles of two commission reports both of which recommended a form of guaranteed income. In June, 1966, the Advisory Council on Public Welfare issued a report entitled "Having the Power, We Have the Duty". In November 1969, the President's Commission on Income Maintenance Programs issued a report entitled: "Poverty Amid Plenty: The American Paradox". In opposition, it is argued that the nation is not sufficiently prosperous to support a guaranteed income proposal. Those who make this argument cite estimates made during the debate on the Family Assistance Plan that proposals with guaranteed income payments pegged to about the official poverty level would have gross annual costs in excess of $30 billion and that the $6500 plan of the National Welfare Rights Organization would have costs in the area of $70 billion. With respect to less expensive proposals (e.g., FAP), it is argued that the adoption of any guaranteed income would result in pressures which would ultimately lead to the adoption of one of the more costly programs.

3. National vs. State Programs

Those who support some guaranteed income proposals place much emphasis on the benefits to be obtained from the Federalization of income maintenance. It is argued that poverty is a national problem and hence one which can most properly and most effectively be dealt with through a national income maintenance (guaranteed income) program. The argument goes both to equity and efficiency. It is pointed out that present welfare programs are administered by over 1000 different State and local jurisdictions with the result that there is nothing approaching national uniformity in the way these programs are run. As a result, it is alleged that clients suffer from uneven treatment and the integrity of the programs suffers from lack of accountability. (A recent Committee Print of the Subcommittee on Fiscal Policy of the Joint Economic Committee is entitled: "Issues in Welfare Administration: Welfare--An Administrative Nightmare".) The matter of equity is also raised with respect to basic assistance levels which vary widely from State to State. (As of July 1972, assistance levels for a family of four ranged from $60 in one State to $335 in another.) An opposing argument is that welfare, being based on individual need, is not properly a matter for administration by a Federal bureaucracy but should be left to the States and localities who are closer to the problems involved. It is also sometimes argued that the "welfare problem" which has given rise to the demand for a guaranteed income is a national problem only in the sense that it has been caused by national action on the part of all three branches of the Federal government which had the effect of taking away from the States and localities much of the discretion they originally were given in operating their welfare programs. With respect to the equity of disparate assistance levels among the States, it is argued that no feasible guaranteed income program can solve that problem since a plan with a low-level of assistance would require cutting back on the benefits now available (a problem which could be avoided only by requiring or at least encouraging States with higher levels to supplement the Federal guaranteed income and thus continue the inter-State inequities) or by establishing a Federal level so high as to make the program prohibitively expensive.

4. Work Incentives and Family Stability

One of the arguments offerred in support of guaranteed income proposals is that such plans reinforce the incentives for socially acceptable behavior as opposed to the present welfare system which is considered to undermine such incentives. The incentives argument concerns two areas especially— work incentives and incentives for family stability. With respect to work incentives, it is argued that guaranteed income plans, because they include the disregard feature described previously, always make it in the family's self-interest to continue employment. In addition, those plans which include a work requirement subject to some penalty are thought to provide strong incentives to work through a combination carrot-and-stick approach. Opponents, however, argue that the disregard features of guaranteed income plans are too meager to offer any real incentive for employment (and that they must be meager because any substantial increase in the rate of income disregard results in a drastic increase in assistance caseload and in program costs) and that, in fact, when benefits from other programs such as medicaid and food stamps are considered, there may be no incentive at all (or there may even be a positive disincentive) for welfare families to work. Further, it is argued that both the disregard and work requirement features of guaranteed income plans have in fact been incorporated into the existing welfare system without remarkable results.

With respect to the incentives for family stability, proponents of a guaranteed income argue that the existing welfare system drives families to split up because the family cannot get assistance if an employed father (or, in about half the States, an employable father even if unemployed) is present in the home. Thus, it is argued, the father may desert in order to enable his family to get on welfare. By contrast, a guaranteed income would allow the father to remain at home and still receive income maintenance payments to help support his family. Opponents of guaranteed income plans question the allegation that non-availability of welfare for families with employable fathers is a prime cause of desertion. It is argued that desertion is as likely to be caused simply by the availability of welfare which alleviates some of the drastic economic consequences which would otherwise be faced as a result of family break-up. Thus, to the extent guaranteed income makes assistance more readily available, it could be said to increase the incentives for desertion. It is also pointed out that even under a guaranteed income, the total benefits payable to the family would be increased by the father leaving home.

The past several years, and in particular, the past three years have seen extensive writing and debate over "guaranteed income" proposals particularly with reference to the Administration's proposed Family Assistance Plan (which was not enacted and is not currently being requested by the Administration). The record of public hearings by Congressional committees on this proposal run to more than 15 volumes, and the measure was debated extensively on the floors of both Houses in two separate Congresses. This report, then, represents just a very summary treatment of some of the more prominent themes which appeared in the argumentation of the issue.

Past and Current Programs

Our investigation of poverty in America has convinced this Commission that the problem cannot be solved without Government intervention. The challenge we face is to design a means of providing basic economic security to all Americans. We want a system which helps people obtain adequate income, which is equitable, and which preserves both dignity and incentive. By increasing the income of the poor, and by preventing many from becoming poor, such a system would reduce the growing distance between the poor and the average American.

The Federal Government and State and local governments have operated income maintenance programs for many years. Before developing a new system we must learn the lessons of these earlier programs designed to the poor. This chapter summarizes those lessons. A detailed review of existing programs is included in Appendix A.

The Origins of Existing Programs

The existing system of income maintenance programs originated in the Depression of the 1930's when millions were unemployed. As it has evolved over 35 years, it has been based on a three-pronged strategy of employment, social insurance, and Public Assistance. In our society the great majority of people obtain their income and social status through employment. The strategy thus assumed that monetary and fiscal policies would guarantee sufficient employment at adequate wages for most people, while education and training programs would assist others in developing their employment potential. If there were enough jobs, adequate education would assure young people a place in the labor force. In addition, a family or individual would need protection against changes in the unemployment rate and against the crippling losses of income when the breadwinner retires, dies, or becomes disabled.

Reproduced from: Poverty amid plenty: the american paradox. The report of the President's Commission on Income Maintenance Programs, Nov. 1969. Washington, U.S. Govt. Print. Off., 1969. p. 45-60, 65-75, 142-148.

Finally, Public Assistance would be necessary as a "residual program" to aid those considered unable to enter the labor force.

This analysis gave birth to the Social Security System, which provided partial income replacement to workers and their families upon retirement or death. More recently it has provided income to disabled workers and health insurance for the aged. State Unemployment Insurance programs were encouraged by Federal legislation to keep those who were briefly unemployed from becoming paupers. The Public Assistance system was constructed as an optional State program, jointly financed by all levels of government, to provide aid for particular categories of the poor: the blind, the aged, the disabled, and dependent children and their guardians. Generally, able-bodied male workers were ineligible for assistance under any of these programs. Training and manpower programs have been developed to increase the earning power of employables—but only recently. Other transfer programs have been created for special groups deemed deserving and in need—such as veterans—and a variety of subsidized goods and services—such as housing, health, and food—have been made available to various income groups.

The strategy behind the income maintenance programs of the 1930's was aimed at the lack or loss of employment rather than directly at the problem of poverty. Today, however, the context of poverty and our view of it are vastly different from that era. We have learned to manage the economy so that catastrophic unemployment no longer is a significant threat. While the economic growth of recent decades has multiplied vastly the output of the economy, we have learned that a very substantial portion of poverty and unemployment is chronic, beyond the control of individuals or the influence of rising aggregate demand. The American economy holds the promise of continued economic growth, a growth in which all Americans *could* share, but in which some may not.

In the mid-1960's an effort was made to mount a war on poverty; the main emphasis was placed on programs to expand opportunities. Social service, training, counseling, and related programs grew rapidly. But on the income maintenance front we attempted to fight the war with old weapons. We sought to improve old programs by raising benefits, easing eligibility requirements, and extending coverage. Now every month on the average, 24 million Americans receive Social Security checks, 10 million are helped by Public Assistance, and 1.1 million draw Unemployment Insurance benefits. But many of the poor remain untouched by any of these programs.

Critique of Current Programs

We have done much to help the poor in our midst. But we have not reassessed our theories or changed our program structure. We have not developed a National program which (1) provides economic security to all those in need, not just those in certain categories, (2) provides aid in an efficient, dignified, consistent fashion, and (3) preserves the incentives that have provided much of our unique growth as a Nation and as individuals. The present income maintenance system has not succeeded for several reasons.

Programs Focus on the Unemployable Poor

One of the major obstacles in the development of an adequate National income maintenance program has been the reluctance to supplement the incomes of employed and *potentially* employable persons. We have assumed that the labor market would provide such persons with sufficient income. But many persons are at least intermittently unemployed due to both cyclical and structural reasons. In 1968, a good year in terms of employment opportunities, monthly unemployment averaged 2.8 million persons. During the course of the year, a total of 11 million persons experienced some period of unemployment.

The major program dealing with the temporarily unemployed but employable person is Unemployment Insurance. However, in 1968 this insurance did not provide compensation for nearly two-thirds of total unemployment because of gaps in coverage and expiration of benefits. Not only are payments limited to a specified length of time, but Unemployment Insurance benefit levels are low. In most States they are below the poverty level for families with children.

The program of Aid to Families with Dependent Children is aimed primarily at families with absent or incapacitated fathers. An Unemployed Father component of this program (AFDC-UF) can provide benefits to households headed by unemployed able-bodied men, but the eligibility requirements are stringent. Only 25 States have chosen to implement this program since its enactment in 1961 and less than 100,000 families are benefiting from it.

In 1966 there were 2.6 million poor families headed by nonaged able-bodied men.[1] These men, and their 10 million dependents, were excluded from Federally-assisted Public Assistance, although a few received locally-financed General Assistance. That exclusion may have weeded out a few potential malingerers and saved a few dollars in the short run, but in the long run it has produced harmful social and economic effects.

The structure of existing welfare programs encourages the real o feigned break-up of poor families, since unemployed or poorly paid fathers generally must leave home if their families are to become eligible for AFDC benefits. AFDC benefits vary by family size and provide a predictable if low income, while wages are subject to the vagaries of a labor market characterized by diminishing need for low-skilled workers.

The employment potential of AFDC recipients—and hence the rationale for treating them separately from working men and women—is unar. The employability of incapacitated AFDC fathers obviously is limited. The education and skill levels of many AFDC mothers severely limit their employment opportunities in the current job market, especially since the demand for low-skilled workers has been declining. Partially because of this, provisions were enacted recently which allow AFDC recipients to work and still retain part of their grants.

While many AFDC recipients could increase their total income from this provision, the employed poor and the employable poor are put at a further disadvantage vis-a-vis welfare recipients. These work incentives make increasingly frequent

[1] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Planning and Evaluation), *Poverty Status Tabulations, 1966*

the inequitable situation in which a poor family headed by an employed worker may have significantly lower income than an AFDC family which the male head has deserted.

Thus, the lack of a program which aids working men and women not only creates economic disincentives and encourages family breakup; it also is socially divisive, because it is possible for the incomes of some aid recipients to exceed the incomes of low earners of the same family size. The understandable resentment that has developed against welfare programs sometimes has been interpreted to mean that all efforts to assist the poor are resented by the nonpoor and especially by the marginally nonpoor—who have somehow "made it on heir own." But malevolence need not be the source of this resentment. Clearly, resentment can spring from a sense of unfairness because programs reverse positions and ranks in the income distribution for no justifiable reason.

The potential for reversing positions in the income distribution exists under the welfare system because we have largely clung to the notion that employment and receipt of welfare must be mutually exclusive. This view is untenable in a world where many employable persons have potential earnings below assistance payment standards. In developing programs to eliminate poverty, exclusion of the employable and the working poor from categories aided by the Government would be justifiable only if all who worked achieved adequate incomes. This is not the case.

Soci l Insurance Benefits Depend on Earnings

Social insurance programs protect workers and their families against the loss of earnings from some of the hazards of industrial life. Each social insurance plan is built around one of several carefully specified risks that have been identified as potential interruptions to earnings. Old Age, Survivors, and Disability Insurance, Unemployment Insurance, Workmen's Compensation, and other forms of social insurance generally pay benefits based on earning levels before employment is interrupted.

These programs have departed somewhat from strict insurance principles because they also provide benefits to some persons who have contributed little or nothing, and the ratio of benefits to contributions declines as the size of contributions increases. Despite this they do not provide adequate benefit levels for the very poor. They pay adequate benefits only to those with strong labor force attachments and relatively high earnings records. Because eligibility for social insurance is related to employment, it cannot reach effectively those who are poorest—those who have fleeting or irregular labor force ties. Moreover, low wage earners will receive low social insurance benefits. The poor worker will become a poor beneficiary. And the system's coverage is still denied to the most poorly paid workers and to the poor who are not employed at all.

Programs Deal Differently with Categories of the Poor

Federal assistance and social insurance programs are designed to provide aid to selected categories of the poor. Programs are designed to cover only certain risks or to benefit only certain groups, such as persons who are old, blind, or disabled, veterans, and farmers.

One consequence of this categorical approach has been the exclusion from Public Assistance of many who are unquestionably in need of help. Part of this exclusion has been by design, as in the case of the employed or employable poor. Other exclusions result because it is impossible to design categories which can cover all cases of need, anticipate the wide variety of human circumstances, and change in response to new manifestations of need. So, we exclude many and arbitrarily include others.

Similarly, it has proven impossible to spell out and devise social insurance programs for all the possible risks to earnings. While old age, death, severe disability, and involuntary unemployment are fairly obvious risks, others—such as partial mental and physical disorders—are not so obvious or so easily covered. It is more difficult to design programs for those who cannot work due to psychological disorders than for those with physical disabilities, although they may be equally unemployable.

Public Assistance Programs Are State and Local Programs

Public Assistance was designed as a residual program for unemployable persons which would wither away in the face of effective employment and social insurance programs. Instead it has grown increasingly larger. Employment has not guaranteed economic security to workers. Social insurance does not cover all workers, or provide adequate benefits to those with inadequate earnings. Thus, the primary burden of providing basic economic security for many Americans has fallen on Public Assistance programs. These responsibilities go far beyond those originally intended for the programs.

Public Assistance provides Federal matching funds for State Public Assistance programs that operate within loose Federal guidelines. The programs exist at State option, and the decision to implement or ignore each of the various cash assistance and service programs is left to the States. The Federal Government can provide financial encouragement for participation, but it cannot compel States to offer these programs.

This local option arrangement has consistently thwarted efforts at National welfare reform. The Federal administering agencies simply have not been able to develop uniform practices and procedures in the 50 States. New administrative guidelines may be issued at the Federal level with comparatively little information on how they will be interpreted and instituted at lower levels of government. The multiplicity of governments involved has made effective policy coordination nearly impossible. The major power of the Department of Health, Education, and Welfare for affecting State programs is the power to withhold funds. But the burden of such action falls primarily on the poor rather than on the State, so such a step never has been taken. Hence, it is not surprising, given resource limitations at the State level, that several of the more significant welfare reforms in recent years have been the result of court decisions rather than National legislation or Federal administrative action.

Clearly, it is somewhat misleading to talk of Public Assistance as a single set of program components, since there are at least 50 State programs with considerable intra-State variations. This multiplicity of programs has several effects: program benefits are generally low; program coverage is restricted; administration is subject to local discretion; and programs differ markedly from State to State in benefit levels, program coverage, and administrative practices.

There are wide differences both in the treatment of needy individuals who fall into the same categories—because of variations in State benefit levels—and in the treatment of needy persons in different categories. Within the Aid to Families with Dependent Children Program, in January 1969 for example, average grants per recipient ranged from $10 per month in Mississippi to $65 in Massachusetts. For Old Age Assistance the range was from $36 per person monthly in Mississippi to $115 in New Hampshire.

Average grants reflect the variety of factors taken into account by States in determining payment levels and eligibility. Among these factors are amounts of income from other sources and family composition. The data below, however, show maximum payments for cases with no other income under the various programs.

Type of case	Maximum Monthly Payment	
	Low State	High State
AFDC (4 persons)	$55	$332
AFDC (6 persons)	88	423
OAA (1 person)	50	182

These are the amounts that would be paid if the assistance unit had no other income. Six States set maximum AFDC payments for families of four persons at a level almost identical with those for single aged women under OAA. One State actually pays the family less. Differences in benefit levels by State far exceed cost-of-living variations. These programs thus act to accentuate rather than to reduce the sharp differences in living standards across this Nation.

The administration of Public Assistance stands in marked contrast to other public programs such as Social Security and the Federal personal income tax. In both of those, administrators have little discretion in dealing with individuals and follow objective rules and procedures. The determination of eligibility, need, and grant levels in Public Assistance on an individual case-by-case basis gives a great deal of discretion to officials at the lowest level. They have the power to interpret regulations broadly or narrowly, to give or withhold assistance. Moral fitness requirements not characteristic of more impersonally run programs often are imposed, and administration of the program may be harsh and stigmatizing. While such individual discretion is not misused always or perhaps even generally, the *potential* for abuse and the way in which this potential affects Assistance clients compels us to emphasize here the types of problems we have encountered in the system.

Some recipients of Public Assistance have not had sufficient access to information regarding the rules which govern them or the benefits to which they are entitled. In many areas, this information has been systematically kept from them as well as from the general public. Thus more stringent interpretations of regulations may be made in times of budgetary pressure. Various forms of coercion may be used to impose conditions on the recipient of aid. Recipients may be harassed by investigators and their private lives may be exposed to governmental scrutiny seldom found in an open society.

Programs Provide Benefits-in-kind

There are also governmental programs which supplement low incomes through direct provision of goods and services or subsidies to consumers. The major in-kind programs provide subsidized housing, health care, and food.

Federal housing programs reach low and middle-income families through a number of means, including public housing, mortgage insurance, rent supplements, and urban renewal. The limited funds allotted to these programs have restricted their scale. There are approximately 700,000 units of Public Housing, for example, while the number of families potentially eligible as tenants exceeds seven million. These housing programs require a basic financial capability if families are to repay loans—despite very low interest rates—or to pay rent—even subsidized, modest, below-market rents. Hence, many of the poorest families are excluded.

Two major programs assist families and individuals in paying for health care. The Medicare program, enacted in 1965, provides medical care benefits to those over age 65. Part A, under which virtually the entire aged population is enrolled, primarily covers hospitalization. Part B, under which approximately 90 percent of the aged are enrolled, costs enrollees $4 per month for coverage of physicians' fees. Because of deductibles, coinsurance formulas, limitations of benefits, and non-coverage of out-of-hospital drugs, Medicare pays only 40 percent of the health care costs of aged persons.

The Medicaid program assists States in furnishing medical care under State Public Assistance programs. Many of the poor are screened out of the program due to stringent income tests and a variety of State-imposed non-income eligibility requirements. Medicaid covers a minority of low-income persons, and generally does not provide fully for even this group.

Two major programs have been developed to subsidize food for low-income families: the Commodity Distribution program, which provides for direct distribution of certain commodities, and the Food Stamp program, which sells stamps at a discount to low-income families, with which they can purchase food at commercial grocery stores. Both programs give low-income households an opportunity to supplement their diet, but neither program is designed to assure a participating household of an adequate diet. Moreover, non-food needs go unmet. These needs often deter persons from buying stamps since outlays for stamps tie up scarce dollars and may leave families unable to meet other needs, such as rent. Commodity programs have been unpopular with recipients because the range of foodstuffs generally is limited and many of the commodities are not very palatable. Both the Commodity and Food Stamp programs are administered by local welfare departments and are governed by State Public Assistance eligibility requirements which exclude many of the poor. These exclusions, plus the reluctance or inability of many persons to buy the Food Stamps, have limited program beneficiaries to only one-fourth of the poor.

In-kind programs are a response to both the limitations of the market—which cannot always make available an adequate supply of housing and health services at low cost—and the inadequate incomes of the poor. Government efforts thus far have not compensated successfully for either of these factors. Programs have been funded at low levels, and responsibility for their implementation and operation often rests with the

States. Hence, not all of the poor have been reached. Many of those who have participated have had their range of choice severely limited by earmarked benefits. In-kind programs aimed to supplement low incomes generally do so less well than direct cash payments. Programs which provide a money income supplement allow for greater consumer choice, and permit greater flexibility of family resources than governmental programs which attempt to set family priorities and allocate family resources. Moreover, we feel that the market system is more efficient at distributing goods and services than direct governmental distribution.

The Need for a New Program

Although performing the basic functions for which it was created, each of the component programs of the existing income security system has internal flaws. More significantly, the overall strategy which guided development of these programs is defective in conception. The strategy which this Nation has followed—relying on full employment to provide adequate income to workers and their families, social insurance to maintain the incomes of workers forced out of their jobs, and residual aid to those who are unemployable—has failed to eliminate poverty. And we do not feel that it can.

In response to the clear failures of the existing system, many proposals have been made for reforms within the framework of the existing system. The Commission has reviewed the major proposals for reform: guaranteed employment programs, broadened coverage and higher benefits under Public Assistance and social insurance programs, and the addition of children's allowances to the system. We have found these alternatives incapable of meeting the basic objectives of universal coverage, and fair and adequate treatment. This review, summarized here, is discussed more fully in Appendices A and B.

Employment and Training Programs

It is often asserted that the labor market could provide adequately for those who are employable, if people could only be placed in the proper jobs. Then simple improvements in Public Assistance and social insurance programs easily could eliminate residual poverty. Job-oriented proposals include expanding training and employment programs, making the Government the "employer of last resort," providing employment subsidies to private industry.

The fundamental limitations in relying on the labor market to provide income for "employables" are the cyclical and structural problems noted earlier which keep many people out of work, at least temporarily. We have not been able to regulate the economy well enough to raise the level of aggregate demand and to increase employment to a high level without bringing unacceptably high inflation.

Employers readily acknowledge that the concept of "employable" varies with the number of applicants for vacancies. In periods of high unemployment, hiring standards rise and employers are quite selective, while standards fall in periods of low unemployment. But many people remain unemployable even at low unemployment rates because of their low education levels, lack of skills, or poor health. Some may have prison records or debts that make them difficult to place in jobs.

Programs that integrate the hard-core unemployed into the labor force can and do work, but they are expensive and slow. Currently, such programs are reaching only a few hundred thousand of the poor annually. It has been estimated that reaching all of the employable poor who could benefit from manpower services and training would require making these services available to 11 million persons. Even if funding levels of these programs were increased substantially, training and manpower programs must be viewed as long-term solutions. Moreover, the effectiveness of such programs is contingent on the ready availability of jobs for those receiving training.

To guarantee employment directly for all potential candidates at the minimum wage would require creating some nine million jobs. Such a course of action would cost $16 billion, and still

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might leave millions poor, since employment at the minimum wage would not remove larger families from below the poverty line. Government employment programs on a more modest scale—without a general guarantee of a job—would omit many more.

The facts regarding employment and employment programs fly in the face of the frequent assertion that anyone willing and able to work can earn a decent living. Improvements in education and human resource development programs contribute to long-run solutions, and they help redress previous deprivations, but they do not help those in poverty now. And programs predicated on employment, such as the social insurance programs, cannot ease greatly the financial plight of persons who have not experienced steady employment at high wages.

These observations have led us to conclude that employment approaches alone cannot provide a satisfactory sole basis for a general economic security system, and are not fundamental alternatives to income supplement programs. Employment-oriented programs and income maintenance programs must be viewed as complementary.

Social Insurance Reform

Instead of creating a new comprehensive program for maintaining the income of the poor, many proposals have been made for broadening the social insurance system to include more of the poor. Among the changes suggested are: "blanketing-in" under Social Security the aged who are not eligible on the basis of their own contributions, increasing minimum benefit levels to provide adequate incomes for low-wage groups, extending unemployment benefits in periods of high unemployment, and creating new kinds of "insurance" to increase the coverage of present programs.

Some of these proposals are motivated by a desire to provide more adequate income to the needy persons who are similar to the insured but who never have earned coverage. Unfortunately, many of these proposals would weaken further the link between contributions and benefits, a link which has earned broad public support for the social insurance programs.

In any case, broadened social insurance would perform an antipoverty function far less efficiently than programs which pay benefits on the basis of need. Social insurance benefits generally are related to past earnings in covered employment rather than current need. Any increase in benefits made with the objective of helping needy beneficiaries would result in a high proportion of that increase going to the nonpoor. Attempts to help the poor by broadening eligibility mean that all members of some population category—such as the aged—are brought in regardless of need.

There is a role for improvements in and expansion of social insurance coverage, as we will note in Chapter 6. But we must also consider the need that would remain.

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Welfare Reform

The lack of programs to aid the employed and employable poor is one of the primary deficiencies of the existing welfare system. Although welfare benefits are clearly inadequate in most States, broken families may receive more from AFDC than families headed by fully employed men receive from earnings. Reforming the welfare system by establishing minimum National standards for the existing categories would provide even higher incomes to families headed by nonworking women than can be earned by many families headed by a working man or woman. This inequity would be greatest in the States with the lowest AFDC payments, where payments would have to rise with Federal minimum payments, and where wage scales are low.

It has been proposed, for example, that a floor under AFDC be established at $200 per month net income for a woman with four children. In poor States, the net earnings of many laborers are less than this amount, and their employment may be unstable and uncertain. For the families of such workers, AFDC would provide a better basis for economic security than relying on the earnings of the father. Nationally, there are millions of families headed by both men and women with earnings below welfare standards, and who are ineligible for assistance. This inequity exists under present programs and would be worsened by raising AFDC benefits without supplementing earnings of nonrecipients.

In recognition of this, a new Federally-assisted category of General Assistance sometimes has been proposed. Such assistance, if extended to persons outside the existing categories, including employed male heads of families and single individuals, could allow more uniform and equitable coverage of all the poor.

Although these and other reforms might help many people, they would have a limited effectiveness because of the Federal-State nature of welfare programs. The Federal Government could not easily require all States to adopt a new program, equalize payments among program categories, employ consistent and simplified administrative techniques, or provide adequate benefits. And the States that do not adopt the program create additional problems for those that do. If one goal of an income maintenance policy is complete and equitable coverage of the poor regardless of location, then the administration, choice of benefit levels, and especially the decision as to whether to institute the programs, cannot be left to the States.

Currently, the administration of welfare programs imposes a major burden on State and local governments. A reformed welfare system would have a much larger caseload, since coverage would be expanded. Yet the present welfare system is already an administrative morass. Competent caseworkers are in short supply, and the volume of paper work is enormous. No system of expanded coverage could be launched without providing for simplified administrative methods, greater efficiency, and more impersonal, rationalized procedures.

Conclusion

Employment and training programs, social insurance, and State welfare programs continue to have significant roles to play in income maintenance. But they are of limited use in providing an income floor for all of the poor in an equitable and efficient manner. There is a greater need for cash grants in income maintenance than we have acknowledged in the past. Such cash grants are most appropriately financed and administered by the Federal Government to assure universality and uniformity of coverage.

In short, we have concluded that:

- Requiring low-income households to support themselves from earnings creates gross inequities because every able-bodied adult has not been assured of opportunities to develop skills fully, and to find employment.
- Social insurance programs that are earnings-related cannot be expected to make payments on the basis of need to those whose earnings have been very low if those who finance these programs are to be truly insured against threats to their income.
- The sole eligibility test for those requiring income not available from employment or social insurance should be a test of income need. Membership in a particular demographic category should not be a condition for aid.
- Payments must be structured in such a way as to provide financial incentives to work, and to limit incentives for family break-up. Providing proper incentives eliminates the need to allow subjective evaluation of applicants, and for allowing administrative discretion in granting aid.
- Those in need should receive a basic cash income floor administered and financed by the Federal Government.

A Program to Supplement Low Incomes

The Recommended Program

This Commission's main recommendation is for the development of a universal income supplement program to be administered by the Federal Government, making payments to all members of the population with income needs.

It is clear to this Commission that such a program is needed in the United States to assist persons excluded from existing programs and to supplant other programs. *It is time to design public policy to deal with the two basic facts of American poverty: the poor lack money, and most of them cannot increase their incomes themselves. These conditions can be remedied only when the Government provides some minimum income to all in need.* If we wish to eliminate poverty we must meet the basic income needs of the poor.

The only type of program which we believe can deal with the problem is a direct Federal cash transfer program offering payments to all, in proportion to their need. Such a program can be structured to provide increased cash incomes to all of the poor, and to maintain financial incentives to work. The basic payments should vary by family size, and the payment should be reduced by only 50 cents on the dollar as other income increases. Thus, positive incentives exist for work, and the further development of private savings and insurance, and social insurance systems is not discouraged. By making payments to all in need—regardless of demographic characteristics—incentives to modify family structure in order to become eligible for programs are reduced.

We recommend that such a program be enacted promptly at a level that provides an income of $2,400 per year for a family of four with no other income. Benefits should be scaled to pay $750 per adult and $450 per child to families, with no other income. This program would supplement all incomes below $4,800 for a family of four. Table 5–1 shows the amount of payments that would be made to a family of four by income level, and the impact on total family income.

TABLE 5–1. Impact of Recommended Program on Total Income of a Family of Four

Other Income	Income Supplement	Total Income
$0	$2400	$2400
500	2150	2650
1000	1900	2900
1500	1650	3150
2000	1400	3400
3000	900	3900
4000	400	4400
[illegible]	0	5000

Adequacy

The choice of level for such a plan is difficult. The lower the basic guarantee level, the less adequate the program. But as program levels are increased, costs rise rapidly, as do possible side effects induced by the program. We have sought to chart a course between extremes.

Since an income of $2,400 for a family of four is below the poverty line, the basic benefit level proposed would not meet the full needs of families with no other source of income. *This level has not been chosen because we believe it to be adequate, but because it is a level which can be implemented promptly. The Commission recommends that once the program is launched, the level of benefits be raised as conditions and experience allow.*

The Commission feels strongly that such a program should be enacted in the near future so as to provide the relief badly needed by Americans living in poverty and receiving little or no help. Even if initial benefit levels are inadequate for persons with no other income, initiation of this program would ameliorate the worst aspects of the poverty problem. And, this is the only type of program which can provide adequate benefits at reasonable costs.

Initially this program would replace Public Assistance completely in States with low payment levels, and partially in States with high payment levels. As be[illegible] levels rise, categorical Public Assistance programs would be replaced fully, so that States and localities eventually would need to provide only short-term emergency aid. Thus, the dominant role in providing continuous cash income support would be shifted from the States to the Federal Government.

Clearly Defined Rights

Federal administration of a universal income supplement program according to objective eligibility criteria would, to a large extent, replace the discretion now exercised by local administrators and eliminate one of the most pernicious aspects of current welfare programs. Benefit amounts and eligibility would be spelled out clearly by Federal law and regulations. Swift appeals procedures should be developed by the administering agency.

Equity

The recommended program can be adopted with no statutory changes in other programs. Benefits of other income-tested programs will decline automatically under current law or practice as the new income transfers are made. This will help eliminate or reduce the wide variations in benefits and administration.

This program would immediately improve the incomes of many of the poor, including the working poor. It would narrow the inequitable differences that now exist between those eligible for categorical programs and those not eligible, and, as the program level is raised, these inequities would be completely eliminated. We are convinced that a noncategorical approach is required in a basic program if adequacy of benefit levels is ever to be achieved while maintaining equity. Attempts to raise the level of existing categorical programs inevitably have exacerbated current inequities.

In the long run the proposed program could lead to a marked reduction in existing variation in living standards of the poor throughout the Nation. Residents of those parts of the country with low wage and assistance levels would receive the greatest immediate benefit from the basic plan; these areas would adapt over time to rising benefit levels. Attempts to reflect different costs of living in different areas would involve many difficulties and so a uniform National supplement is recommended.

In addition to providing equal treatment for persons in equal need, the program would maintain relative income positions. Under the plan, the worker would always receive more income than the nonworker for a fixed household size, and workers who earn more always would receive higher total incomes than workers who earn less. Thus, the plan would not capriciously reverse positions in the income distribution. It would not equalize incomes at the lower end of the distribution; it would narrow differences.

Incentive Effects

Clearly, any program which provides income without work may affect work effort. Empirical evidence for predicting effects of such a program on labor force participation is sketchy. But, given the level of the basic income support program, we are convinced that the disincentive effect is not likely to be powerful. Some secondary and part-time workers as well as primary workers may withdraw from the labor force or reduce their hours worked, and some persons may not enter the labor force because they are provided with a secure income base. We would expect reduced work effort to be concentrated among secondary family workers, female family heads, and the elderly, rather than among nonaged male family heads. Thus, some reduced work effort may be socially as well as individually desirable for many of those affected. The fact that support levels for those without earnings under the proposed program are low, and that work will always produce increased income, would maintain strong financial inducements to work.

The alternative to relying on financial incentives to work is to impose work requirements on applicants for aid and to deny aid to those who are deemed employable by some official. We believe that such tests cannot be used effectively in determining eligibility for aid, and are undesirable in any case. Employment tests imposed by current programs often are based on largely irrelevant criteria such as age, sex, and the like. While these factors are useful for purposes of manpower planning in the aggregate, they do not fit individual cases well. The only meaningful determination of employability for an individual is the outcome of a freely operating labor market; no timeless definitions of employability can be drawn. Inevitably, any simple test designed to withhold aid from the voluntarily unemployed will deal harshly with some of those who cannot find work. Any degree of complexity involved in the test would introduce elements of subjective evaluation to be exercised at the lowest administrative level. We do not think it desirable to put the power of determining whether an individual should work in the hands of a Government agency when it can be left to individual choice and market incentives. Since we do not now have employment for all who want to work, employability tests lose much of their meaning in the aggregate. But they allow abuses in individual cases.

In any case, we do not believe that employment tests are needed. Our observations have convinced us that the poor are not unlike the nonpoor. Most of the poor want to work. They want to improve their potential and to be trained for better jobs. Like most Americans, the poor would like to do something with their lives beyond merely subsisting. By providing them with a basic system of income support, we provide them with an opportunity to do these things.

Exaggerated fears of massive work disincentive effects often have influenced discussions of income maintenance. Though these effects could be important, our fears should not lead us to forget the crippling effects of poverty. Men and women who are poor cannot afford to take risks. They are seriously impeded in making plans. They usually are precluded from accepting opportunities that require the investment of time or money. Most of their time and energies are absorbed in survival on a day-to-day basis. Once the poor are assured a minimum stable income, they will be in a much better position to use other antipoverty programs. Education, job training, and employment counseling can be expected to operate more successfully on persons who have a base of economic stability on which to build. It is unrealistic to expect these programs to be utilized effectively by persons whose basic incomes are inadequate, uncertain, and unstable. And to require people to enter such programs as a prerequisite for income support is unnecessary. We have noted that existing training programs generally are oversubscribed with volunteers. Unless jobs were abundant and the training programs had adequate capacity, any requirement that unemployed recipients of income support accept training would be meaningless. The Commission believes that market incentives and not compulsion should be the basis for accepting both employment and training.

Because the recommended program would make payments to all in proportion to their need, financial incentives to alter family composition would be reduced sharply. With payments available to male-headed families with low income, the strong incentive for family splits inherent in AFDC would be mitigated. Similarly, payments would be available to families and individuals without children, thereby removing inequities between childless couples in need and families with children in need who may currently be eligible for AFDC.

Program Transfers

The recommended plan would increase net Federal budget costs by an estimated $7 billion in 1971. If States which currently make assistance payments above the recommended initial level of the Federal program made supplementary payments to current recipients up to their current standards, State and local spending would be reduced by one billion dollars. An estimated 28 States would not have to make supplementary payments to recipients of AFDC since their payment levels are below or about equal to the level of the new Federal program.

Thus, the estimated net added cost of the recommended program to all levels of Government would be $6 billion in 1971. This amount is the increase in the disposable income of the 10 million households receiving payments under the plan. Five billion dollars of increased income would be received by the estimated eight million households poor prior to receiving payments, and the remainder by households somewhat above the poverty line. Over one million households would be removed from poverty, while all of the poor

An Income Security System

Enactment of a universal income supplement program automatically would replace part of existing cash assistance programs, and eliminate or reduce many of the inequities, inadequacies, and inefficiencies in Public Assistance and other programs. With basic income support of the poor provided through an independent program, employment and social insurance programs could be focused on their primary objectives, instead of being modified to help the needy. Public Assistance could take on the role in which personalized administration would be appropriate: providing emergency aid and meeting special needs created by individual problems. Finally, the pressure to create special programs for special groups in need—such as farmers, veterans, migrants, or the aged—would be reduced. While programs for special groups might be called for, they would have to be justified on the basis of needs above and beyond general needs. A special program could not be justified because a group needed income—the universal supplement would provide that—but only if that group clearly needed more income than other needy people.

The role of other social and economic programs is outlined in this Chapter.

Employment

Programs enabling people to advance economically through training and employment will continue to be essential in a society that has chosen to guarantee all of its members a minimal standard of living. The implementation of our recommended plan would strengthen rather than reduce the need for employment and manpower programs. Indeed, because our program would provide the poor with incentives to work and to increase earnings, the failure to offer job opportunities and employment services would be a serious omission. By helping low-wage workers, the unemployed, and those not in the labor force, strengthened manpower programs could decrease the cost of the income support program, and could play a major role in eliminating poverty. Moreover, such programs are needed not only for the poor, but also for the nonpoor who must adapt to continuously changing technology and labor market requirements. Thus, continued development and growth of programs that assist individuals to increase earnings is an essential feature of a broad economic security system.

Labor Demand

The success of manpower programs requires continuous strong market demand for the services of program graduates, and for the low-skilled in general. Such labor market conditions are most likely to exist in a full-employment economy. Consequently, the Commission recommends continued pursuit of fiscal and monetary polices which ensure the steady growth of employment opportunities within the contraints imposed by the goal of reasonable price stability. The Commission also recommends that both general economic policy measures and specific manpower programs increasingly be directed at reducing inequality of employment opportunity. Such recommendations are not novel or original, but they are worth repeating since they are vital to the creation of a successful program of income generation and maintenance.

Coordination and Rationalization of Manpower Programs

Greater coordination and integration at all levels of government are necessary for the success of manpower programs. The multiplicity of Federal funding sources, for example, encourages inefficiency and competition among agencies at the Federal level and among programs at the local level.

Manpower and training programs are relatively new, and their effectiveness has been varied. Future development of these programs should be more systematic and coordinated. This will require careful planning and evaluation. It seems desirable to vest responsibility for funding, planning, coordinating, and evaluating all such programs in one Federal agency.

Similar coordination is equally desirable at the local level where potential users of services come into contact with a multiplicity of agencies offering a wide range of services. Local operations should seek to establish a single point of contact between the user and the source of all manpower services. Thus, at one location, an individual's training needs could be determined and he could be directed to the relevant services, such as testing, skill training, placement, relocation assistance, and the like. The potential benefits of operating local manpower service distribution programs in conjunction with local facilities providing other social services also should be investigated.

Training and Work Experience Programs

At present, training and work experience programs are major components of the United States manpower system. Programs based on the work experience concept provide the participant with useful paid employment and some training, but are designed primarily to instill good work habits and motivation. Although experience with these programs is limited, the available evidence seems to indicate that training-oriented programs produce greater benefits relative to cost than do those programs based on the work experience concept. While education, training, and work experience basically complement one another, the apparent inferiority of the last leads the Commission to favor reallocation of limited funds toward on-the-job training and institutional training programs.

Participants in institutional training programs generally are paid a training allowance--which is a form of income support. Recipients of income support under our proposed program should be encouraged to accept training to improve their earning capacity. Training allowances for those enrolled in institutional programs should be disregarded in calculating both income supplements and income tax liabilities. This will provide a strong incentive to enter and to complete institutional training programs.

Jobs in the Public Sector

This country has experienced a rapid growth in the demand for public services which has caused a shortage of trained professionals to dispense these services. This in turn is creating a rich source of future employment opportunity for subprofessional workers at all levels of government. Many of these positions could be filled by training persons who are presently untrained and unskilled. To achieve this, however, special emphasis must be placed on the redefinition of jobs and the creation of new entry level "trainee" positions in government. Such a change in governmental job structures can be accomplished through a program patterned after the New Careers and the Jobs in the Business Sector programs. A Jobs in the Public Sector program simultaneously might satisfy the projected demand for subprofessionals and provide socially productive jobs for many persons otherwise lacking opportunities for self-improvement.

Too little is known about the proper ways to utilize the government as an employer to enable us to make specific program recommendations. However, large-scale experimental programs and pilot projects of more than token dimensions should be undertaken to help develop the knowledge and data needed to evaluate the long-run potential of such programs.

The Training and Employment Service

The Federal Government can make a substantial contribution to the total antipoverty effort by helping to improve the labor market position of disadvantaged groups. By undertaking this task the United States Training and Employment Service (formerly the United States Employment Service) not only could aid disadvantaged groups but could increase the efficiency of the entire labor market by providing more and better information to those demanding and supplying labor.

To insure that the quality of services is enhanced and to improve cooperation among local and regional offices of the TES, the Commission recommends that the operation of the TES be Federalized. The funds are provided fully by the Federal Government already, but little control or supervision is exercised over these programs and the same variations that appear in Public Assistance programs exist in operations of local employment and training offices. Expansion of such operations, unless accompanied by reforms, would make these variations worse.

Other specific TES reforms which the Commission endorses are as follows:

- Outreach programs that find the hidden unemployed should be expanded.
- Testing and counseling should be developed to deal with the population they are supposed to serve. Tests designed for middle-class white persons have not been appropriate for use with Blacks or Puerto Ricans, for example.
- Besides counseling, testing, and referral of applicants, the TES should provide relocation aid—cash aid as well as counseling and follow-up services.
- Attempts to induce employers to register job vacancies with the TES should be increased.

Equal Employment Opportunity

Federal action against discrimination can help make the labor market a more viable means for minority group members to escape poverty. Unemployment, underemployment, and low wages—all prime causes of poverty—often are rooted in discrimination.

While urging strenuous action on behalf of equality of opportunity in the labor market, the Commission specifically recommends more vigorous enforcement of antidiscrimination clauses in Federal contracts. In addition, the Equal Employment Opportunity Commission should be given the power to issue cease and desist orders when evidence of discrimination is uncovered in its investigations.

Conclusion

Perhaps the most important point to note when reviewing manpower programs in the United States is that they are relatively new and in many cases experimental. The potential value to society of an efficiently functioning manpower system is unquestioned; it is the proper role of individual programs within the system which must be determined. This can best be achieved by continuing experimental programs along with expanding operational programs that have proven successful. Consequently the Commission recommends that on-going experimentation and innovation within the system be encouraged. Continued review and evaluation of these programs with a perspective broader than that of any particular agency is required.

Total costs that might be added by expansion in these program areas would depend on the scope and expansion of services offered. Increased services in these areas are clearly justified. So long as we require people to earn most of their incomes, we must provide them with access to employment opportunities. And, as long as patterns of labor demand shift over time, individuals—regardless of whether poor or not—must be provided with opportunities to adapt to those changing demands.

Social Insurance Programs

The major Federal social insurance programs have been stretched to compensate for the absence of a general income supplement plan. There are several changes which should be made in conjunction with the inauguration of universal income supplements.

OASDI Objectives

The present Old Age, Survivors, and Disability Insurance program (OASDI) seeks simultaneously to provide a minimum adequate income for beneficiaries, to preserve earlier living standards of beneficiaries, and to require contributors to pay the costs of anticipated benefits. These objectives are not fully consistent.

To provide an adequate retirement income through this program, a minimum benefit must be established which may have to be quite unrelated to an individual's contributions or prior earnings. To preserve an individual's standard of living, benefits must be related to the most recent earnings of the insured worker which are usually his highest earnings. But equity in a contributory system requires that benefits paid be related to contributions made over the entire working career, although benefits determined on this basis can be adjusted as general earnings levels change. The effort to provide a minimum adequate income in the OASDI program distorts the relationship between benefits and contributions or earnings. This is particularly true in the case of dependents' allowances for wives, who are entitled to an amount equal to 50 percent of their husbands' OASDI benefits. For husbands with identical average earnings, a couple in which the wife never has worked may receive the same benefits as a couple in which the wife has worked and paid OASDI taxes, because the working wife's earnings record may entitle her to an earned benefit less than she is entitled to automatically as the wife of an OASDI contributor. Dependents' allowances unrelated to contributions are justifiable if the objective of the program is to provide a minimum adequate living standard.

Dependents' allowances paid on this basis are, however, a departure from principles of individual equity.

The absence of a good alternative income maintenance program to assure all households a minimum income has been partly responsible for the introduction of redistributive elements into this program to meet social goals inconsistent with the concept of earnings-related social insurance. Once a universal income maintenance program has been established to assure all households a minimum adequate income, the Commission recommends that benefit formulas under the OASDI program be reassessed to remove those features that reflect attempts to redistribute income to those in presumed need. The Commission also recommends that the Social Security Advisory Council consider changes in the structure of OASDI benefits which would be required upon adoption of a universal income maintenance program.

Unemployment Insurance

Our recommended income supplement plan is designed primarily to aid the low-income or intermittent worker, those chronically unemployed or unable to work, and those not in the labor force. This plan should not be expected to meet the needs of short-term unemployed workers or to provide for other emergency cash needs. Unemployment Insurance should continue to provide short-term income protection for many people, including those whose income would be too high to qualify for income supplements. In any case this social insurance program exerts a significant stabilizing effect on the economy by supporting purchasing power in periods of slackening demand.

As noted earlier, however, Unemployment Insurance programs are hampered by major gaps in worker coverage and by low benefit level in many States. To achieve a comprehensive income maintenance system the Commission recommends that Unemployment Insurance be extended and expanded to accomplish the following goals:

- Provide broader coverage of wage and salary workers. Protection of income during short periods of involuntary unemployment for persons at all income levels is important to the workers and to the economy. A large part of the labor force should not be denied coverage.
- Provide more equitable treatment of the unemployed among all the States. As with Public Assistance, State variation is a problem in this essentially Federal program. National minimum standards for the determination of eligibility and disqualification rules, weekly benefit amounts, and duration of benefits, would eliminate this problem.
- Provide benefit levels which adequately replace income during short-term unemployment for all covered workers.

Cash Transfer Programs

Categorical Public Assistance

Public Assistance, by default, has developed into a means of supplementing chronic low incomes of certain groups. As the major program providing cash benefits based on need, its gaps in coverage and administrative difficulties have come under sharp criticism. But efforts to reform the system have been impeded by the fact that it is essentially a State-option program.

The Commission recommends that Federal participation in existing Public Assistance programs be terminated. In many States, current Public Assistance benefit levels exceed the proposed Federal income supplement program. The Commission feels that these States should continue to pay supplementary benefits up to current standards with their own funds. Because the Federal Government directly pays 100 percent of the costs of a basic income support program, States will save an estimated $1 billion of what they would spend for Public Assistance, even if they supplement Federal payments up to current welfare standards for current recipients. All of the States that would pay supplementary benefits would still have reduced demands on their own funds.

If it appeared likely that some States might reduce benefits from current levels, Federal matching funds could be continued until the level of the direct Federal income supplement program reaches adequate levels. We do not think such matching is needed or desirable, however. The same factors that have led some States to adopt high standards can be expected to result in continuation of their current levels. And those States with inadequate programs probably would not wish to supplement the Federal program even if matching funds were available. One objective is to replace the existing categorical Public Assistance system, and move the level of benefits under the Federal program towards adequacy. Federal funds should be applied towards this objective rather than be used to extend the Public Assistance program.

A New Program of Temporary Assistance

We are aware that Federal withdrawal from Public Assistance means that some States with benefit levels below those of the new Federal program may abandon many of their current programs. In those States, current assistance recipients still would be better off under the new Federal program than they were under the previous State programs. But abandonment of these programs may leave unprotected those people who have exceptional emergency needs or who suffer a sudden large drop in income. For such people, the Federal income supplement program cannot extend aid as rapidly and as sensitively as a locally-administered assistance program. Locally-operated programs to provide "instant aid" are needed for those with sudden needs.

To encourage the development of such programs on a State basis, we recommend that the Federal Government should participate financially in State programs that meet the following criteria:

- The program must be noncategorical, covering all persons without demographic or other distinctions.
- Assistance should be based on a simple test which takes into account income and assets.

States providing short-term aid would be required to provide such aid to all persons in need. Imposition of work requirements for employable persons might be appropriate since a short-term emergency aid program at even a low level would be vulnerable to abuse.

The Federal Government would reimburse the States for 50 percent of the special assistance benefits paid to each individual, up to the basic benefit level of the Federal income supplement program. Thus, the Federal Government would contribute to State programs only to the extent that they are short-term in nature. Individuals with incomes exceeding the guarantee level of the Federal income supplement program would be ineligible for supplementation from a Federally-financed State emergency assistance program.

Estimated total cost of such a program would be $600 million, of which the Federal share would be $300 million.

Income-in-Kind Programs

The enactment of a cash income supplement program would not allow the Federal Government to drop most income-in-kind programs immediately. Some of these programs could be phased out in time, while others might be continued and improved in order to meet basic social needs.

Housing

There is a shortage of adequate housing available to the poor. Only a small percentage of the poor are served by present housing programs. Since any significant reduction in the costs of construction and occupancy because of technological developments will take some time, Federal subsidies will remain necessary to bridge the gap between marketplace costs for standard housing and prices that lower-income families can afford to pay.

This Commission concurs with the analyses and recommendations of both the President's Committee on Urban Housing and the National Commission on Urban Problems. Construction of more subsidized low-income housing through the private sector is necessary, and is preferable to more public housing projects.

For the immediate future, large-scale Government involvement in housing programs is essential to complement the basic income supplement plan. While additional income would enable more poor families to obtain somewhat better housing in the private market, it is likely that continued direct Government action will be required until there is significant improvement and expansion of the housing supply.

Health Programs

Government health care programs will continue to be needed to promote the well-being of both the poor and nonpoor. The poor cannot afford private health care, and even with adequate incomes they would be unable to meet high nonrecurring costs of major illnesses without aid. Moreover, since disability and illness force many families into poverty, the health of the nonpoor is also a vital concern. Thus, health care programs cannot be supplanted by cash income support.

Existing health care programs have inherent structural flaws: they are categorical, providing free or subsidized medical care to some but not to all who are in equal need. Moreover, Medicare and Medicaid do not meet all of the needs of those eligible for assistance. The existing programs are dependent ultimately on an industry which has lacked the capacity to meet large increases in the demand for its services. Medicare and Medicaid have reduced the financial burden of obtaining adequate health care for many of the aged and the poor. But these programs have raised the cost of health care for many other people. By enabling the poor for the first time to purchase adequate health care, the prices of a relatively fixed supply of health care services have been bid up; it is the near-poor who have been hurt most by this process.

Complete health care coverage is an elusive concept. Very few insurance programs come close to providing it, although in several States Medicaid promises such care. Hospital insurance, the most widely held form of protection, generally does not cover the full costs of catastrophic illnesses. Because the poor and near-poor lack access to private coverage more frequently than other

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:ome groups, they are most vulnerable to the ancial hazards of major illnesses. Medicaid has t protected them adequately and cannot do so thout expenditures much higher than the curnt level. While Medicare has paid for much of e hospital and post-hospital confinements of the lerly, the burd n of drugs and physician fees ll rests largely with them. For the elderly poor, e $4 monthly premium for medical insurance, upled with deductibles and drug costs, is a vere burden. In only a few States are these emiums paid for the aged poor by welfare agenes.

Meeting basic income needs of the poor will duce their health care problems somewhat. But is will not increase immediately the supply of ealth services or cover the costs of short-term and atastrophic illnesses, two problems which plague oth the poor and the nonpoor. These problems—nd the role the Government should play in solvg them—are of great importance. This Comission has not developed a specific program to ssist in the financing of medical care. But we eel that such programs are needed, and recomnend that the Administration complete the tudies now underway to develop them.

'ood Programs

The Food Stamp and Commodity Distribution rograms, unlike other in-kind programs, could e replaced easily by a well-designed cash transer plan. These programs supplement incomes but lo so much less efficiently and with less consumer hoice than direct cash transfer programs; they mprove living standards only by increasing food onsumption. So long as total income remains inadequate, there will be a tendency for recipients either to substitute free food for their former food purchases or to eschew any food program which requires a fixed outlay for food and hampers their ability to adjust expenditures to meet other family needs. Normal market channels are efficient suppliers of food products. Government intervention is not necessary to assure a supply of food for low-income households as long as those households are able to afford market prices.

We recommend that special food programs that provide food to poor families and individuals—Surplus Commodity Distribution and Food Stamps—be phased out with the introduction of a program directly supplementing cash income.

Social Services

For the past 30 years, Government has been the principal source of a continually expanding range of social services which are provided to the nonpoor as well as the poor. Some services are now part of Public Assistance programs, while many others are provided under a variety of auspices.

It is difficult to deal with this area because of the lack of an adequate definition of services. Current programs add little to our knowledge: most of the activities labeled services under Public Assistance, for example, are actually closely related to program administration.

There are three general types of social services. First, there are services of a surrogate nature, such as homemaker services or day care, aimed at enhancing an individual's ability to function socially. The second type of social services are informational and referral activities which attempt to establish a link between an individual's need and existing community services such as legal aid, housing, and medical assistance. Finally, there are clinical social services, which include psychological, psychiatric, and casework counseling.

The Commission feels strongly that all three types—surrogate, informational, and clinical—have to be provided as a necessary complement to an efficient and effective income maintenance system. But the delivery of services should not be attached to income support. Useful services should be justified on their own merits.

Services cannot be a substitute for adequate incomes; they cannot pay rent or buy food for a poor family. Yet Public Assistance programs frequently have offered services in lieu of adequate benefit levels. Moreover, grants too often have required the acceptance of social services. This reduces or eliminates the trust and confidence between professional social worker and client which is essential for successful social service work. Commission members were impressed by the testimony of both social workers and clients which pointed out that the utility of social services often has been impaired by the link with cash income support.

The Commission recommends the adoption of a new system of Federal grant-in-aid programs to distribute needed social services equitably throughout the Nation, but which does not allow these services to be used as substitutes for adequate benefits or as devices for coercion and social control of the poor. To accomplish this:

- Receipt of social services must be voluntary except for services which are inherently coercive and which are imposed through due process of law, such as probation or parole.
- Experimentation with different forms of organization and delivery systems including direct vouchers to recipients to allow them to choose the services they wish to purchase and to choose the supplier of those services should be encouraged and funded by the Federal Government.

The Commission believes that cash income is the primary instrument for the creation of economic security; however, cash is a necessary but not a sufficient instrument. In a complex industrialized society some low-income citizens are undereducated, inexperienced, overwhelmed, and defeated. As a result, they may be exploited, demeaned, and discriminated against by institutions which should be serving them.

The Commission has found that many of the poor have very limited access to information. They have never been told what rights they have by law, how to find bargains on food, where to obtain free medical service. Programs tailored to provide information, education, and even specific assistance (such as legal defense) would help the poor better to utilize and to increase their limited resources.

We were struck by the overwhelming array of places poor people must go for the services they need. Often the various service agencies are far from one another and from the poor neighborhoods; to get there clients must expend considerable time, energy, and money. The Commission feels this situation must be remedied.

We recommend that the basic services provided through Federally-aided programs be included in multi-purpose urban neighborhood service centers which would provide a single location from which social services could be dispensed. These neighborhood service centers also could provide information and referral services, have outlets for manpower programs, and provide space for clinical services.

These recommendations could be financed initially with the $500 million that the Federal Government now spends for administration, services, and training in Public Assistance programs.

Other Programs

Problems of adult poverty today largely reflect the failure of programs that dealt with children yesterday. The children of the poor tend to remain poor themselves as the cycle of poverty becomes increasingly difficult to break. America's traditional paths out of poverty are becoming harder to follow as unskilled jobs disappear and the length of time required for education and training for decent jobs extends beyond the ability of poor families to absorb the costs.

We have seen that services available to the poor tend to be inferior—whether in health, education, or welfare. The poor have the worst nutrition. Poor children generally go to schools that are run

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down, poorly maintained, lack supplies and facilities. Often these schools are staffed by teachers who are unable to find assignments in better schools.

To ensure greater opportunity for poor children to break the cycle of poverty, we must direct programs to their needs. In part this means taking a new look at the failures of health, education, and welfare programs. Specific recommendations in this area are beyond the scope of this Commission's charter. We merely note that for a long-run solution to problems of poverty, the root causes of inadequate earning potential must be dealt with by Government programs.

Day Care for Children

The Commission has considered programs to provide day care to the children of working mothers. Such programs are important and worthy of discussion. The tone of current public debate is disturbing, however. Much of this debate has been focused on providing places to put children so that mothers on welfare can work. It is often proposed that day care be provided with the stipulation that mothers must accept work or training. The Commission cannot recommend extensive provision of day care for this purpose because it is costly, narrowly conceived, and coercive. Unless purely custodial care is to be offered, costs are quite high. Head Start program costs, excluding capital costs, provide a benchmark for estimating the cost of enriched care on a full-day, full-year basis for three to five-year old children. In 1968 these costs were approximately $1,700 per child. For children under three costs are higher because a greater adult-to-child ratio is necessary. The potential earnings of most AFDC mothers are not much more than the cost of day care for one child—but most such mothers have more than one child.

In 1967, 33 percent of children receiving AFDC were under 6. Thus it would cost $2.7 billion to provide these children with day care. If the half million mothers responsible for these 1.6 million children could work all year at the minimum wage, their total receipts would be only $1.6 billion. The net cost to society of providing day care for dependent children under 6 alone would amount to $1.1 billion to accomplish uncertain goals. A full-scale program for all poor mothers would be even more costly.

The Commission dislikes the coercion involved in requiring poor mothers to work regardless of their skills, abilities, and desires. The Commission therefore rejects the notion that day care should be provided so that women on welfare can be required to work.

While the costs of providing enriched day care are formidable, we recognize that many

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women now work and many other women strongly desire to do so, including both welfare recipients and nonrecipients. We recommend efforts to develop adequate day care facilities for children at lower cost which could be available on an ability-to-pay basis. Pilot projects and experiments in this area would be very useful.

If day care is regarded as an important child development opportunity, then programs for young children can be seen as a universal extension of the concept of public education. This concept is worthy of exploration but detailed recommendations are beyond the scope of this Commission's responsibilities.

Family Planning

The Commission notes that for many families poverty is a result of having more children—frequently unplanned children—than the parents can adequately support. Yet family planning services are less accessible to the poor than to middle and upper-income families. In 1966 only 13 percent of the 5.3 million poor and near-poor women who could have benefited from family planning services were receiving them from any public or private agency,[1] and few of them received these services from private physicians. Yet such programs have relatively low costs and high benefits. Costs of services average $30 per woman annually. Five million poor and near-poor women could be helped for an annual cost of $150 million.[2]

Even if benefit-cost ratios were not favorable, incalculable human costs would be overriding. The human cost to individuals, to families, and to society of unwanted children growing into adulthood in poverty without hope or opportunities is enormous and the remedy is inexpensive. There is no reason to deny to the poor what is so easily purchased—the ability to plan family size.

The Commission recommends that the Federal Government rapidly expand family planning programs to make information and services available on a voluntary basis to all American women who want but cannot afford them.

Conclusion

The adoption of a basic program supplementing low incomes is a necessary component of a serious effort to eliminate poverty. Such a program should be enacted whether or not existing programs are changed. It would provide added income to many ineligible for aid under existing programs. Coupled with the changes and modifications in existing programs outlined in this chapter it would mold the old and the new programs into a coherent National economic security system.

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[1] Planned Parenthood-World Population, *Five Million Women: Who's Who Among Americans in Need of Subsidized Family Planning Services*, Planned Parenthood Federation of America, 1967.

[2] *Population and Family Planning*, Report of the President's Committee on Population and Family Planning, November 1968, p. 18.

Alternative Programs Considered

Recognition of the problems created by the absence of an income floor program has prompted many program proposals in recent years. These proposals have in common some basic objectives: more uniform coverage of the poor, greater objectivity of operation, higher income for the poor, and preservation of work incentives. Some are income-tested; some are not. Some are connected with employment and others are not. The Commission has reviewed the proposals which have appeared prominently in recent public discussion. This evaluation has led us to prefer a [illegible] income-tested program that provides cash supplements as recommended in the Report. This Appendix reviews other programs, and reasons for finding them less satisfactory.

Program Types

Most income maintenance proposals can be grouped under one of the three major program types. There are employment-related plans that are aimed at increasing incomes through the provision of training; direct employment; and/or wage subsidies. Some plans would redistribute *wealth* on a per capita basis. The majority of plans, however, are for one form of income transfer or another. Such plans as welfare reform, negative income taxes, and children's allowances would increase personal incomes directly through cash transfers. Proposals of these types are considered more fully below.

Employment-Related Programs

A number of widely discussed antipoverty proposals would operate through labor markets. Two of the most important of these are "government as the employer of last resort" (or guaranteed employment) and wage subsidy proposals. Despite the popularity of such plans, there is very little hard knowledge about how they might operate, the number of people that would be affected, the wages that would be paid, and how much they might cost. If "wage subsidies" and "guaranteed employment" are to be more than empty phrases, these and other difficult questions must be answered.

Briefly, a wage subsidy is a means for achieving one or both of the following two ends: first, insuring that low-wage employees receive a more adequate wage, and second, inducing the employment of unemployed labor. A subsidy can fill all or part of the gap between the workers' value on the open labor market and a "target wage." The wage subsidy may be paid directly to the worker or may be paid to the employer who in turn pays his employees a wage exceeding their market value. By definition, the subsidy program can aid only those who are now working or who are potentially employable.

The income needs of nonemployable persons would have to be met by other programs. And, there may be residual income needs for employed persons with large families.

It is estimated that a wage subsidy set at 50 percent of the difference between a "target wage" of $2.00 and actual wage rates would make payments of $7 billion to nearly 15 million persons. Graduated taxes on subsidies in excess of family poverty lines would yield $1.3 billion, leaving an estimated net cost of $5.7 billion.

A potential problem inherent in any wage subsidy scheme is that employers could gain a portion of the subsidy. The less competitive labor markets are, the more likely it is that employers will be subsidized. Some lesser amount of benefits could also be "lost" to the working nonpoor—especially second earners in a family—who work in subsidized jobs.

While one purpose of a wage subsidy is to induce private sector employers to hire low productivity workers, guaranteed employment directly provides jobs in the public sector. Candidates for guaranteed employment will generally be those whose productivity is less than some "target wage." They either will be currently employed below that target wage, or unemployed. Ideally, work would consist of socially useful tasks which otherwise would not be performed, assuming there is an adequate supply of such tasks.

A program with the Federal Government serving as employer of last resort and offering employment at the minimum wage—subject to a number of eligibility restrictions including overall family income—would cover an estimated 9 million workers and cost an estimated $16 billion.

Coverage

Wage subsidies and guaranteed employment are both "work-conditioned" income maintenance programs; that is, only those who are able to work qualify for program benefits. There are at least three social reasons for supporting such programs:

- To offset the gross cost of cash income maintenance through the production of socially useful goods and services.
- To provide an educational experience which eventually makes it possible for participants to succeed in the private labor market.
- To provide participants and/or society with the psychological benefits that accrue when income is received, not as a gift, but as compensation in return for services.

The relative weights assigned to these three reasons have important implications in any determination of who should be included in program participation. In an actual program at least some of the conflicting values implicit in these objectives must be compromised. Operationally feasible eligibility criteria must also be formulated. If equal weight is given all three, universal coverage is implied, but this may be quite expensive. If the number of openings in the program must be rationed, a relatively high weighting of the first reason (minimum costs) suggests creaming the most productive of the low productivity labor force. A large weight on the second reason (work experience) implies an emphasis on those who could benefit most from training (e.g., the young or those who live in areas where nonsubsidized jobs can be procured). Highly weighting the third reason (psychological benefits) may imply that only family heads should be permitted to participate. Should secondary workers (e.g., the wives of working husbands) participate, family income may be brought well above the poverty line. If secondary workers are denied eligibility, however, incentives for family splitting are created.

If participation in a wage subsidy or job program is limited in order to reduce costs, some sort of priority system will have to be used. Then, employment at a certain wage is no longer "guaranteed" to all who wish to work, but only to those falling within certain categories. Hence the term guaranteed employment or the guaranteed wage implied in a wage subsidy becomes something of a misnomer. But a categorical program offering income from jobs has the same defects as categorical programs which simply offer income

Job Content

The relative weights assigned to the three main reasons for supporting work-conditioned income maintenance programs (listed in the last section) are important determinants of the content of the jobs assigned to individuals qualifying for a wage subsidy or a guaranteed job. The desire to minimize costs puts a high priority on the usefulness of the task performed, while maximizing psychological benefits does not, assuming it is activity rather than productivity from which the psychological benefits flow. However, the destructive impact on morale of useless make-work is well known, and this effect must be offset against potential productivity improvements from experience. Maximizing work experience puts the emphasis on the performance of jobs where valued skills are acquired, coupled perhaps with supportive services, e.g., vocational training, basic education, and special counseling.

The supply of productive and/or skill-acquiring types of jobs could drastically limit the size of the program. While it is true that there are many tasks in the public sphere that could improve the quality of public services, it is also true that these tasks are not limitless. Moreover, they also require expenditures in training, supervisory personnel, and supporting administrative structure. To be most effective and most useful, it is likely that the need for public services and a carefully designed strategy for service implementation should take precedence over the sheer development of jobs in these areas.

Job content can be controlled more or less directly in the case of guaranteed, publicly administered employment programs. This is not true under a wage subsidy program, where the participating private employer will determine job content, subject to whatever incentives or pressures the Government can apply (e.g., to insure emphasis on skill upgrading). But, many of the potential publicly administered jobs have been considerably over-romanticized. Many are not unlike other jobs at the lower end of the pay scale. Moreover, the opportunities for advancement typically are limited. Given, for example, the end of a teacher shortage in most areas, it is unrealistic to expect many teachers' aides to be trained to become teachers.

Wage Levels

The level of the wage paid the participants in a wage subsidy and/or guaranteed employment program is critical in determining both the program's effectiveness as an antipoverty device and its costs. In general, the higher the wage the more useful it would be as an antipoverty tool. Higher wages also would increase the attractiveness of the program to potential participants, and consequently some sort of priority system would be necessary to keep costs manageable.

Since a substantial number of workers presently are employed at or below the minimum wage, a large scale guaranteed employment program paying the minimum wage may necessitate considerable economic adjustment by low-wage industries if significant numbers of workers should transfer from private to guaranteed public employment. Under guaranteed employment there is not only the possibility of an initial large shift of workers from the private sector onto Government payrolls, but also of repeated shifts from one sector to the other as wage rate differentials and job opportunities fluctuate over the business cycle.

Wage Differentials

Assuming that the general wage level is given, establishing wage differentials for participants in work-conditioned income maintenance programs involves a very intricate set of problems. Wages under various programs may differ by geographic region, work assignment, individual merit, seniority, and, in the case of wages subsidies, by industry. Since a family's standard of living is a function of the number of people in the family, it also may be desirable to vary the wage on the basis of household size. The type and size of the wage differentials will affect program costs, the flow of individuals into, within, and out of the program, and possibly the wage structure of the nonsubsidized sector of the economy, to mention but a few of the possible implications.

Conclusion

Under either program the net costs would be economic equivalents of cash transfers of the same amount and distribution. Apart from whatever nonlabor income they may have, households are poor because their members are not employed, are underemployed, or are employed at wages too low relative to household size. Persons not employed are without labor income because, at the time, their contribution to an employer's income (a) does not justify payment of the prevailing wage, (b) is so low that, given that only 96 percent of the labor force is employed, they have been screened into the remaining 4 percent; or (c) is less than the value of their labor in the home. Or, they may be too old, young, or sick to work. Persons employed presumably are producing all that they can and are compensated for what they can do. The wage subsidy in private employment could leave many persons who are now unemployed out of work or could displace some of those presently employed. Total employment might not necessarily be raised, depending on the structure of the program and whether the program could be used by employers to subsidize their current workers. Government jobs might accomplish some worthwhile things, but Government output is not sold in the market. In the National Income and Product accounts, Government output is valued at cost. This convention should not delude us into believing that an increase in Government payroll automatically increases real output by a corresponding amount. Hence, the assertion that net labor costs (i.e., value of output minus wages) of these programs are economic equivalents of cash transfers.

In general, the Commission believes that wage subsidy and limited (i.e., non-"guaranteed") employment programs might be best used as complements to a basic income maintenance system should they prove feasible after further study. These programs can affect only employed or potentially employable persons. For those unable to work, the basic income would be the source of support. Moreover, an income supplement program still would be needed for large families to augment the wages from the subsidy or employment program. Thus such programs are not substitutes for the development of adequate income supplement plans.

Redistribution of Wealth

Serious proposals to redistribute wealth are few in number. Redistributing wealth could put income-producing property in the hands of all Americans, thereby reducing their dependence on both labor and transfers as a source of income. Given the absence of the potential for large increases in capital productivity, however, such schemes would not provide enough income to make possible adequate incomes to all without earnings and other Government transfers. Transferring income rather than wealth seems a more appropriate and direct means of affecting income.

Income Transfer

In principle, redistribution of income is not different from redistribution of wealth. The higher taxes to finance income transfers reduce the after-tax income and, hence, capital values of those who pay taxes, and grants create at least implicit capital values for those receiving them. The capital value of grants is recognized by lenders who may consider an AFDC mother with a grant of a given size a better credit risk than another woman with no income or even with the same monthly earned income.

Modifications of Existing Programs

A number of proposals would modify existing welfare and social insurance programs. The reasons for rejecting this approach to alleviating poverty have been discussed in Appendix A. While these programs are worthy of improvement, a new program is needed as well.

New Programs

A variety of proposals to redistribute income through new programs—ranging from children's allowances to negative income tax plans—have also been made. Basically, two kinds of new programs have been presented: those, such as the plan recommended by this Commission that would supplement incomes and thus have a test of income need, and those such as children's allowances that would provide payments to persons in a selected category of the population regardless of the level of their other income. Neither type of program is a complete substitute for Public Assistance as envisaged in most published versions. Under most of the plans being discussed benefits are not high enough to cover the full needs of all current recipients. Moreover, they are not tailored individually to the special needs of particular families. Rather, they are viewed by proponents as partial substitutes for welfare, and as a way of giving aid to new groups now outside of the welfare system—primarily the working poor. Also, they are seen as a means of giving the Federal Government a greater role in a National system of income maintenance and a greater share in the cost.

Income Supplement Programs Related to Need

A frequent proposal is that a guaranteed annual income (GAI) be provided to all. In this program, the Government would pay the difference between a family's income and a socially defined level of minimum income. If the program is Federally-administered, the burden of administering cash payments is lifted from State and local welfare agencies except for providing emergency aid. The same results can be achieved, it should be noted, through a State and locally administered program by setting a uniform standard for payment levels, making men who work eligible for supplementation, and including couples and unrelated individuals. A guaranteed annual income can be regarded as a welfare reform program. This was essentially the proposal of the Advisory Council on Public Welfare in 1966.[1]

This type of plan, as generally proposed, is universal in coverage. If the guarantee level is set at the poverty line, all poverty is eliminated at once. However, a basic defect of the program is its failure to deal directly with the work incentive issue. The plan would make it unprofitable to work unless earnings exceed the guaranteed level. In the economist's terms, this program has an implicit 100 percent marginal tax rate on earnings—for every dollar earned, a dollar of guaranteed annual income is lost. In the construction of tax systems, we exhibit a great deal of concern lest our marginal tax rates be set so high as to discourage work efforts. The same concern must apply to programs for transferring income to the poor.

One can build on this type of plan, however, by adding a positive work incentive feature, such as reducing the payment by some fraction of a dollar for each dollar of earnings. This type of plan is frequently referred to as a negative income tax. Characteristic of all proposed plans of this type is that they guarantee a certain income level to families with no income, with the guarantee varying by family size.

[1] *Having the Power . . . We Have the Duty*, Report of the Advisory Council on Public Welfare (Washington, D.C.: U.S. Government Printing Office, 1966).

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As a family's income rises, the supplement from the Government decreases, but only by a fraction of the increase in income. That is, the plans allow the recipient to build upon that guarantee by adding earnings which are only partly taxed away. These plans provide a financial incentive to work. Those who work will always have more income than those who do not.

Most proposals of this nature are universal: that is, they cover the entire population. However, it is possible to have such a program only for certain groups in the population such as families with children. The Family Assistance Program proposed by the current administration is an example of this type of plan. This Commission's basic recommendation is for such a plan on a universal basis.

Programs Unrelated to Need

Programs can also be designed to provide income without a needs test of any sort. Such programs, known as demogrants, make payments based on factors such as age or sex. The many suggested plans in this category are known variously as social dividends, universal old-age grants, and children's allowances. The coverage, structure, and cost of these programs vary widely, depending on the specification. The most often proposed plan is a children's allowance.

Children's allowances usually are proposed as modest grants per child regardless of family income. The universality of payments to all children is alleged to remove any stigma of a means test from the program, and to demonstrate Government interest in the well-being of even nonpoor children.

While the strongest case for children's allowances is made on social grounds, the strongest arguments against their use as a major antipoverty program are set in benefit/cost terms. The problem is that to provide significant aid to poor children requires that a good deal of expenditures go to nonpoor children. Thus, in terms of gross payments, this program is much more expensive than an income-tested program per dollar of aid to the poor.

Payments of $50 monthly per child, for example, would entail a gross cost of over $41 billion. The financing of such a plan through such means as taxing the allowance and eliminating the income tax exemption for children would undermine some of the alleged advantages of the universal approach.

Yet these two measures would reduce the cost of a $50 per child monthly allowance only to $28 billion, so additional financing would be required. Even at this cost, many children and their families would remain poor, and programs based on need would be required, both for families with children and persons and families ineligible for children's allowances. Payments at a lower level—more realistic in terms of cost—would leave even more families with children in poverty.

Thus, because of the financing mechanisms in such programs, some of the advantages of children's allowances are much more apparent than real. We must face the fact that not everyone can benefit equally from a transfer program. However cleverly disguised, there must be net payors as well as net payees. When we recognize the need to recapture benefits from the affluent through the tax system to finance benefits for the poor, this type of program does not appear to be very different from an income-conditioned grant for families with children. This undermines the argument that children's allowances would garner greater social and political support than equivalent income-conditioned transfer programs.

The main technical difference between the children's allowance and the negative tax for families with children is that in negative tax programs the transfer of funds is done on the basis of a net transfer—an income deficiency is met. In the case of children's allowance or demogrant plans, two transactions are involved. Gross payments are made to all in the selected category. Those whose income is above a certain level, however, must pay a portion of the benefits back through the positive tax system to finance the program cost. The ultimate distribution of benefits and burdens of financing can be made identical by the financing mechanism. Thus, benefits in one case depend on a prepayment means test, and in the other net benefits depend on a postpayment means test. The poor would be net beneficiaries in either case—receiving cash income in a simple way. Under children's allowance plans, the more affluent simultaneously receive an increase in gross income and an increase in taxes.

Children's allowances are essentially extensions of the categorical system of aid. While new beneficiaries are added, many persons in equal financial need are excluded. On the basis of our past experience with categorical programs, it seems clear that this incremental approach which carefully defines eligibility also equally defines exclusion. While many children are desperately in need of aid, there are too many other equally needy persons to justify proposing another categorical program.

If there were an adequate program providing a floor under income to all Americans, an argument could be made that children's allowances are a good way to redistribute income between families with children and others within similar income classes. But, children's allowances are a poor antipoverty weapon.

Welfare Policy in the United States

A critique and some proposals
derived from the experience of former Secretaries
of Health, Education, and Welfare

Foreword

The paper which follows presents a constructive proposal for changes in one portion of our nation's welfare system. The need for revision is recognized across the full spectrum of America's political opinion, even though different changes are desired by different constituencies — and often for contradictory reasons.

Despite the widespread agreement on a range of inadequacies, efforts to make basic changes in federal welfare policy have had a gloomy history. The motives and goals which various parties bring to the effort are too diverse for accommodation within a single overall design. Added costs for some level of government also appear inevitable, so that opposition to change has financial as well as philosophical bases.

But revision is urgently needed. Even if one could ignore for another decade the faults and inadequacies of our welfare programs, one would still be impelled to attempt revision now because of the new urgency to design a system which, at an affordable level, will provide benefits to the most needy recipients throughout the nation.

In 1981 The Johnson Foundation, Inc., headquartered in Racine, Wisconsin, convened a conference on welfare. The conferees had one striking qualification in common: each had served as Secretary of Health, Education and Welfare. They were: Anthony Celebrezze, Wilbur Cohen, Robert Finch, Arthur Flemming, Patricia Roberts Harris, David Mathews, and Elliot Richardson. Abraham Ribicoff, while not present at the original conference, has participated in subsequent review of the proposals.

Among them, they represented every administration from Eisenhower through Carter. The conference set in motion conversations and consultations about welfare reform which continued into 1982, and led finally to this paper. What follows is the product of the thought and experience of the above-named former Secretaries of Health, Education, and Welfare, their stated preferences among available choices. Their purpose is to contribute to the national debate about welfare, not to draft specific legislation. Naturally, the participating former secretaries do not stand together on every point, on every criticism, on every objective. But their common experience has enabled them to make a thoughtful and realistic contribution to the debate about welfare reform in general, and about aid to families with dependent children, in particular.

Preface

This paper, the outcome of a conference and subsequent consultations involving a majority of the nation's former Secretaries of Health, Education, and Welfare, recommends the revision of the present program of Aid to Families with Dependent Children (AFDC). The revised plan introduces policy measures of national eligibility and benefit standards, and calls for full federal funding of phased-in minimum cash benefits, while maintaining state program administration and strengthening the role of state government in making significant policy determinations.

Section IV below presents our proposals in outline. An analysis of current programs and of the issues associated with them will set these recommendations in their historical and policy context. Our hope is that in this manner the experience in public service which we have been privileged to share can make a contribution to the needed public reflection and debate about the welfare policies appropriate to the United States.

I. The United States Welfare System

Citizens of the United States are generally agreed that the community at large has some obligation to protect the unfortunate and vulnerable. From motives that have their basis in religion, humanitarian feeling, or concern for the best interests of the community, Americans have traditionally acted on the belief that people who are poor or handicapped or at risk are to some extent a responsibility of the entire community.

This responsibility has been discharged in a variety of ways through religious organizations, individual and organized private charity, voluntary associations, and through public actions at all levels of government. In this century, assistance provided by government to the poor and less fortunate has grown. Social insurance, income maintenance, and assistance efforts of various sorts constitute large public programs and require large public expenditures. Programs funded and managed by government are, no less than private charity, the expression of the general community's obligations, as perceived by that community. They represent the discharge of a general obligation on behalf of the aged, the widow, the orphan, the sick, the disabled, and other groups.

There is also a consensus that the U.S. economic system, while providing benefits for most individuals and for the nation at large, still leaves in its wake some who for various reasons and for varying periods of time are unable to compete, to contribute, or to participate in the benefits. For these, the public assistance provided by welfare and social insurance programs serves as a corrective, ameliorating what would otherwise be the harshness of the system, and by that very act helping to preserve the system itself.

The intent, therefore, of our system of transfer payments was to create a nation that would be protective and caring, as well as free and open. In pursuit of that goal, a succession of programs has been brought into existence, including general assistance, veterans' pensions, Aid to Families with Dependent Children (AFDC), housing assistance, fuel assistance, food stamps, Medicaid, earned income tax credit, and Supplemental Security Income (SSI). Those are the income-tested "welfare" programs available only to the demonstrably needy, and do not include the "social insurance" programs such as Old-age, Survivors' and Disability Insurance (Social Security), workers' compensation, and unemployment insurance. Taken all together, our various welfare and social insurance programs represent a substantial system. *In toto*, the programs create not merely a floor underfoot, but a ceiling of protection overhead. Thus, in the United States, most people in most circumstances of need are eligible to receive some assistance. Our welfare system is extensive and effective, despite its complexities, anomalies, and inequities, gaps and overlaps.

The welfare system is also expensive. In 1978, the eight major income-tested programs, including AFDC, SSI, food stamps, and Medicaid, cost the federal government \$34.4 billion, and state and local governments \$15.3 billion, for a total of almost \$50 billion.[1] By another count, seven of the large income-tested programs cost an estimated \$70.5 billion dollars in 1981. These same programs cost \$25.25 billion dollars in 1973. Worth noting is that our social insurance programs involve approximately three times the expenditures of our welfare programs.

Concern over costs which rise by entitlement and appear out of control is legitimate. This concern needs to be tempered, however, by a recognition that from 1976 through 1979, public social welfare expenditures (including social insurance programs) decreased as a percentage of gross national product and as a percentage of the federal budget, a trend which the President's Commission for a National Agenda for the Eighties expected to continue for the long-term unless halted by recession. Nor are United States social welfare expenditures high in comparison with those of other industrial nations. If anything, we seem less generous, less willing to commit ourselves to the support of the less fortunate and the vulnerable.

In any case, the system of social expenditures in the United States does work, and figures show to what extent. For 1976, the

[1] Thomas A. Ault, "Federal State Relations and Income Support Policy," in *Income Support: Conceptual and Policy Issues*, eds. Peter G. Brown, Conrad Johnson, and Paul Vernier (Maryland Studies in Public Philosophy, Rowman and Littlefield, Totowa, New Jersey, 1981), p. 59.

Congressional Budget Office calculated, 27% of American families (21.4 million families) had incomes below the poverty level *before* income transfers. *After* transfers (including the social insurance programs), 8.1% or 6.4 million families, had incomes below the poverty level.[2] Martin Anderson, until recently President Reagan's Assistant for Domestic Policy Development, writing in the Hoover Institution's *The U.S. In The 1980s*, states that if we judge solely by the twin criteria of the completeness and adequacy of coverage, then "our welfare program has been a brilliant success."[3] But, of course, he did not mean to imply that those are the only criteria, and the effectiveness of the system in accomplishing certain goals does not provide immunity from criticism nor obscure the need for reform.

II. The Need for Revision

To speak of our welfare "system" may mislead. The configuration of present programs did not emerge from a coherent design. It accumulated, piece by piece, through a process of disjunctive incrementalism, as successive administrations continued what one of them labeled "the War on Poverty." Now, in 1982, there are varying assessments of the state of that war, of the identity of the victors and of the number of the victims. But from various sources a variety of criticisms of the system itself are offered. From the far right, which sees it as extravagant and fraud filled, and from the far left, which sees it as inadequate, it is regarded as a failure. The great middle ground of American politics is less partisan and less strident, but it generally shares a negative appraisal of our system of welfare, while viewing some welfare programs as necessary in a market economy.

Hear some moderate voices: the President's Commission for a National Agenda for the Eighties states that "Our welfare system continues to be a maze of uncoordinated programs that trap people in poverty and dependency." And, in *The State Of Black America, 1980*, Vernon Jordan writes of the need "to replace the present totally disastrous welfare system ...."[4] Speaking to the NAACP in 1978, Senator Edward Kennedy stated that "there is ample evidence that the welfare system itself, in combination with other factors, has helped to produce the very disease we now must seek to cure."[5] Those are not the sources from which one would traditionally have expected such criticism.

What are the charges against our welfare system, the points — whether valid or not — that reform must consider?

1. It is replete with inequities.

Here are some examples noted by the President's Commission for a National Agenda for the Eighties:

> A Minnesota mother of three could receive AFDC, Medicaid, and food stamps until her income reached $8,000 a year. A Minnesota father who remained with his family and worked full-time at a low wage disqualified his family for aid, regardless of need. In 1972, according to a Congressional sub-committee, a man who worked for $2.00 an hour could increase the annual income of his family (a wife and two children) by an average of $2,158 if he deserted them. The system in these cases rewarded one family over another and many would argue that it rewarded the wrong family.[6]

A principal source of inequities is the Aid to Families with Dependent Children program, the most basic component of the nation's welfare system. The program is administered by states, with the federal government meeting about 54% of the costs. Because of state by state differences in eligibility rules and benefits, there is a wide variance in support for families, from Mississippi's November, 1981, low of $120 for a family of four, to Vermont's $601. Whether or not welfare policies and funding are federal responsibilities is arguable, as the

[2] Congressional Budget Office, *Welfare Reform: Issues, Objectives, and Approaches* (Washington, 1977), pp. 17-18.
[3] Stanford, 1980, p. 147.
[4] *The State of Black America, 1980*, p. 265.
[5] Freedom Fund Dinner, Detroit, May 1978.
[6] *Government and the Advancement of Social Justice: Health, Welfare, Education, and Civil Rights in the Eighties* (Washington, 1980), p. 66.

present public debate illustrates, but a strong case exists for some minimum standard to promote the cause of equity in the national interest.

2. It encourages family break-up.

The Minnesota example cited earlier illustrates the way in which fathers are induced to desert families. And yet, the present system, if it contributes to the disruption of families, leaves the female-headed family in dire straits. Half such families in the United States live in poverty today. The significance of that is emphasized when one realizes that three-fourths of all black children live in families headed by women.

3. It encourages teenage pregnancies.

The break-up of traditional families and the spawning of new truncated families demonstrate the way in which tragedy breeds tragedy within an impoverished sector of our population. Critics assert that the system encourages teenage pregnancies by making a baby an admission price to a welfare system for which there is often no work alternative, given the high teenage unemployment rate, especially among minority youth. We are aware that this is only one of several causes for the rise in out-of-wedlock births, but it is one which a reformed welfare program should address in the national interest. The children of children resulting from this phenomenon add yet another generation to the history of those families trapped in welfare dependency. Moreover, children's children are over-represented in the ranks of victims of child abuse, school dropouts, the unemployed, and the prison population. The social costs are incalculable — and the fiscal costs are nearly so. Those for welfare and medical expenses alone are estimated to be above $8 billion. Many of the costs, moreover, are paid under some rubric other than welfare.

4. It serves as a disincentive to work.

The Minnesota example cited earlier demonstrates that in some cases welfare provides a higher income than a low-paying, entrance-level job. Yet, getting people to break out of welfare dependency into the workforce should be one of the major objectives of a well-ordered welfare program. That transference typically requires a period in an entry-level job, which means that a program must be flexible in order to move a person from the one status to the other, from dependence to independence.

Fortunately, the widely held suspicion that many able-bodied persons are on welfare by choice is unfounded, or, at least, exaggerated. Most impoverished Americans work, or are persons whose status or disability makes work impossible. Many of the poor work for part of a year, part-time, or for low wages that leave them poor even after working. Many move in and out of poverty and in and out of welfare programs, even when holding paying jobs. Moreover, there have been — and are — work requirements for welfare recipients. The Work Incentive Program (WIN) has been part of AFDC since 1971, and various local jurisdictions, including at least one state, have had work requirements for recipients of general assistance. Our own view is that experimentation with work requirements should be encouraged, under broad local and state autonomy.

5. It discourages thrift and savings.

This tendency, relating to the work disincentive, derives from the fact that near destitution is a necessary entry mode for welfare. Continued poverty is required for sustained eligibility for relief through income-tested programs. Reform needs to resolve the tension involved in that dilemma, so that families may make the transition from support to independence.

6. It is costly.

As noted above, the eight major income support programs cost the nation nearly $50 billion in 1978. The Congressional Budget Office reports that eleven public welfare programs cost all levels of government $46 billion in 1976. More striking than the total is that those same programs, or their predecessors, cost only $7.5 billion ten years earlier. That 612% increase over a decade dramatizes the increase in costs and in number of recipients for some programs, especially food stamps and Medicaid. For better or worse, the growth in welfare expenditures will be limited, at least in the next few years, for political and economic reasons. Public expenditures must be subject to political control so that public policy can determine, through the political process, whose income should be supported, and to what extent.

7. It is too bureaucratic.

The range and number of categorical programs developed over the years, some in one department, some in another, each with its own rules, assumptions, and benefits, require an array of federal, state, and local administrators for implementation and for accountability. What critics like to call a welfare industry has been created — a growth industry which some suspect is the principal beneficiary of our welfare system. That cynicism aside, the fragmentation of services, the confusion, and the added costs constitute an important welfare issue. The problem of bureaucracy was illustrated by the President's Commission for a National Agenda for the Eighties with this example:

> A recently widowed mother of several children, one of whom is disabled, may now apply to seven federal programs for aid. In a typical jurisdiction, she will have to go to at least four different offices, fill out at least five different forms, and answer some 300 separate questions. The programs may treat the information obtained from these forms differently, the value of the same car, for example, is almost sure to differ from program to program. Fourteen hundred pieces of information may be needed just to determine accurately the level of the woman's income.

In part, this amount of paperwork is necessary, the result of different programs designed for the benefit of different categories of recipients. Some of this complexity can be simplified, however, by program consolidation or coordination and by the more general use of available management technology. Although attention to better management lacks the glamour of the policy-making or legislative processes, there can be no substitute for clarity and efficiency. The duplication and complexity of program administration [illegible]ng the collection of information to [illegible] client eligibility and benefits, cost abou[illegible] 5 billion in FY 1976 — thus administrative costs represent 8 percent of the total benefit costs of the American welfare system.[7]

8. It is a poor fit with our federal system of government.

In a system such as ours, relations among various levels of government present a chronic problem. In the case of the development and implementation of welfare policy, that chronic problem sometimes becomes acute. The variety and complexity of programs, accumulated during administrations with differing emphases and views of the federal-state relationship, has long since replaced the layer cake view of federal, state, and local governments with the metaphor of marble cake. A clean, clear separation seems impossible. The income-tested programs, especially AFDC and Medicaid, present the toughest challenges. "General Assistance," that most ancient and generic form of welfare, would appear to be an exception, because it is the responsibility of localities, or, in some cases, of states, but even it is not immune from tension. The levels of jurisdiction and responsibility are intermixed. Budget cuts in federally funded programs, such as AFDC, food stamps, or unemployment insurance, quickly result in heavier general assistance burdens for states and localities.

In nearly all programs there is some participation, either financial or administrative, by both federal and state governments, even in the so-called "federalized" programs. One characteristic of our experience has been the tendency of one level of government to criticize another for mandating programs and services without appropriating funds to pay for them. In recent years, rising welfare costs have been a growing burden for state and local government. The idea of national standards and federal funding, with local responsibility for administration, gained support in such an era. Now, in 1982, the rhetoric is mixed as the financial plight of the federal government takes a priority over the more traditionally noted burden at the local level.

The New Federalism raises old questions for which no simplistic answer is acceptable. The problem involves appropriate balance between sectors, but the customary metaphor of a scale balance of federal state concerns is inadequate. A more complex chandelier balance is suggested, with many factors involved in the funding and administration of contemporary welfare programs.

The modern history of welfare in the western world has been marked by a movement from a primarily ecclesiastical concern to the secularization of charity and "relief" under lay control, and of a subsequent movement from a reliance upon volunteer agencies to the development of a professional cadre of administrators and social

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[7] Congressional Budget Office, *Welfare Reform: Issues, Objectives, and Approaches* (Washington, 1977), p. 24.

workers In some cases, even the beneficiaries, the "clients," are organized. To accommodate the competing tensions, to draft acceptable compromises between equally worthy alternatives, is one of the principal tasks facing anyone who proposes to improve or reform the nation's welfare system

In pursuit of the goal of a more harmonious, rational, effective, and economical system, the last decade and a half has seen several proposals advanced for comprehensive overhauls of the welfare system, including the report of the Heineman Commission, the Nixon Family Assistance Plan, and the Carter Administration's Program for Better Jobs and Income. These and other proposals for comprehensive reform have sought to replace categorical programs with new, single, and simplified programs, such as a guaranteed income through the mechanism of a negative income tax

At least for some years, it seems that it may be politically impossible to implement reforms similar to those previously proposed. For our time the temptation to overhaul must be foregone in favor of more modest goals — improvement in coordination, administrative efficiency, reasonable work incentives, and clarity of function in federal-state relations. We believe that our proposed welfare revision would make a contribution to those goals. The proposals are measured rather than sweeping. They deal with the politically feasible rather than the stuff of which dreams are made. Appropriate to the flux and financial concerns which dominate current political debate, the recommendations are flexible and embody principles which can be adapted to various funding levels and conflicting philosophies.

III. Policy Objectives

A reform of welfare programs would ideally include the following objectives:

- to provide a basic minimum level of income support for families with children in which the breadwinner is absent, disabled, unemployed, or deceased;
- to help hold families together in wholesome fashion,
- to provide fiscal relief to financially distressed states for the costs of AFDC,
- to provide incentives for those on welfare to work and to save,
- to enhance the roles of states in administering welfare programs,
- to simplify administration by making uniform definitions of income, resources, and work incentives;
- to encourage innovation and experimentation;
- to develop a long-range practical and realistic program that recognizes national economic conditions and the fiscal needs of state and federal governments;
- to incorporate constructive ideas that have been put forth in recent years by officials with practical administrative experience

IV. Policy Recommendations

We former Secretaries of Health, Education, and Welfare are proposing a set of changes which, although short of the ideal, we believe would improve our welfare system by revising the current program of Aid to Families with Dependent Children (AFDC) We believe our changes represent a creative and realistic form of federalism.

The key features of our recommendations are these: national eligibility standards, national minimum benefit levels, federal funding of those minimum benefit levels, and retention and strengthening of state/local program administration and service delivery. We wish to stress the importance of these few principles. They are the heart of our proposal. Simple as they may seem, they embody an important potential reform of the

U S welfare system We urge their consideration and present the following specifications as desirable public policy options We include dates and amounts to give an idea of what might be feasible, but we are not wedded to specific figures

1. Effective Date.

The revised program co ome effective October 1, 1984 (i.e. ... ear 1985)

2. General Objective.

The program should provide a ationally defined minimum level of support for all eligible families, above which states would be free to make improvements With the provisions spelled out below, it would be possible to overcome part of the negative image currently associated with AFDC

3. Eligibility: Discouragement of Family Breakup.

The revised program would include as eligible recipients families in which a child or children are deprived of financial support due to the breadwinner's incapacity for work (as defined by the state) or unemployment (as defined by the state) Thus families if they met its income test, would be eligible for assistance in fifty states and the District of Columbia if one or both parents are deceased, incapacitated for work, disabled, absent from the home, or unemployed This standard of eligibility would eliminate incentives for fathers to desert their families This goal could be phased in over several years to enable states to prepare for their broadened responsibilities

4. Minimum Federal Benefit Level.

The basic objective is to provide a nationwide minimum income for all families with children This benefit level should be compatible with some minimum budgetary standard of health and decency The standard could be related to some proportion of the U S -established poverty level, to the median income of the individuals in the state, or to some proportion of the income level established for families with children under the Supplemental Security Income Program.

The minimum benefit level could be reached by phased implementation over a period of years, in order to take into account the financial, economic, and administrative implications for both federal and state governments

A suggested timetable and the minimum state standard of need related to the national poverty level might be as follows

Fiscal Years	Exclusive of Food Stamps	Including Food Stamps
1985 86	30%	50%
1987 88	40%	60%
1989 90	50%	70%
1991	60%	75%

The above levels are only illustrative The specific levels would be determined by the Congress, based on the availability of funds and the public policies related to the status of the economy and federal and state budgets For comparative reference one might note that in 1981 AFDC and Food Stamps for a one-parent family of three persons was 46% of the 1981 poverty threshold in Mississippi, 50% in Alabama, Arkansas, Tennessee, and Texas In nine states, the proportion reached 95% or more Alaska, California, Connecticut, Hawaii Michigan, New York, Vermont, Washington and Wisconsin

5. Federal Share of Minimum Payment.

We recommend that payments to families up to the minimum benefit levels be financed entirely from federal funds

6. State Supplements.

States would be free to supplement the federal minimum benefits The federal government would pay 25% of state supplemental payments up to 125% of the defined poverty level by family size

7. State Administration.

Individuals would apply to their state agency as determined by the state The state would make the eligibility determination in accordance with the provisions of the revised program An individual would have a right to a fair hearing and appeal to state courts The federal government would pay 95% of the states' proper and efficient administrative costs States would be required to make audits and reports

8. Work Incentives.

To provide an incentive to work and to lessen the impact of marginal tax rates, we would disregard (at 1980 wages) the first $75 a month of fulltime employment and the cost of day care for a child One third of earnings over the $75 a month disregard would likewise not be counted as income (These amounts would be indexed to the increase in wages over the 1980 base) States could increase these work incentive factors ($75 and one-third) and the federal government would pay 25% of such additional cost, the states 75%.

9. Incentive for Saving.

To provide an incentive for saving, the first $30 a month in interest, dividends, or any social security or other benefit for which a family member paid 50% or more of the premium or contribution would be disregarded in computing payments. These amounts would be indexed to the increase in wages over the 1980 base.

10. Nationwide Definition of Income.

"Income" would be defined as all wages, salary, net self-employment, interest income, dividends, rents, royalties, alimony, inheritances and gifts. Up to $20 a month in gifts (indexed), infrequent and irregular income up to $20 a month (also indexed), and earnings of a student would not be counted as income.

11. Maintenance of Payment Level.

Payments to eligible families should be maintained at an amount not less than their standard in 1980, indexed to the price level, effective FY 1985.

12. "Hold Harmless" Provision.

The federal government would provide federal funds of not less than the amount it paid to the state in FY 1980, indexed to the increase in the price level. States would not be required, beginning in FY 1985, to expend from state funds any more than the state expended in FY 1980, indexed to the increase in the price level.

13. Simplification of Paper Work.

States would be required to use the same definition of income and resources for Medicaid and be permitted to use it also for the determination of eligibility for food stamps in the state, subject to #14.

14. Optional Food Stamp Inclusion.

Each state could request permission of the federal government for the use of a single eligibility form and a single definition of income and resources for all AFDC and Food Stamp recipients in that state. States would have the discretion to apply different disregards or exempt amounts.

15. Optional Medicaid Inclusion.

States would have the option to include in Medicaid families with one or more members incapacitated or unemployed, but would continue to be required to include in Medicaid and AFDC the families of those who are deceased, disabled, and absent from home.

16. Block Grant Experimental Alternative.

Temporary waivers for specific provisions of the federal law should be extended to the revised program. Additionally, the Secretary may authorize up to four or five states to establish such different programs as will allow states to experiment with other approaches to meeting the income maintenance needs of families. On condition that each such state continues its estimated financial share for the period, a state would receive for up to five years the estimated amount it would have received under the revised AFDC program, as determined by the Secretary.

17. Evaluation Reports.

One-half of one percent of the federal expenditures would be set aside for use by the Secretary to make grants or contracts for the evaluation of the program or for the Secretary to evaluate the program. These evaluation reports would be published and distributed to states and other interested parties.

18. Periodic Advisory Committee.

Every four years there would be established an advisory committee to examine the program and the evaluations and, after public hearings, to make recommendations to the President and Congress for any changes. There could be ten members of the advisory committee — three selected by the Speaker, three by the President pro tempore of the Senate, four by the President. The chairperson would be selected by the President.

19. Qualitative Standards.

We believe that the "qualitative standards" dealing with Grants to the States for AFDC in Title IV of the Social Security Act should be retained. They include such essential safeguards as requirements that aid be available in all counties in the state, and that individuals whose claims are denied be given a fair hearing.

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V. Conclusion

We believe that the changes suggested in this paper would promote the goals of adequacy, equity, and efficiency, which are among the important criteria for a welfare program, and that they would contribute to addressing the issues outlined above.

This proposal would establish the principles of national standards of eligibility and support, of federal funding of minimum benefits (with the option of state supplements), and of state local administration. The political process, based on budgetary realities and perceptions of good public policy, would determine the level of benefits. Whatever that level, we urge the establishment of these principles. Nearly a half century of experience with programs designed to protect the health and welfare of the nation's children, the principal beneficiaries of AFDC, leads to the conclusion that it is most appropriate for the national government to formulate policy, set standards and serve as primary funder, while reserving to states the administration and delivery of services. Economy and compassion are both called for in our present national environment. We former Secretaries of Health, Education, and Welfare believe that the recommendations contained in this proposal can advance both causes.

The Better Jobs and Income Plan

A GUIDE TO PRESIDENT CARTER'S WELFARE REFORM PROPOSAL AND MAJOR ISSUES

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I. INTRODUCTION

There are many problems with current welfareprograms. They have been studied extensively for many years, most intensely since war was declared on poverty in 1964, and numerous reform proposals have been put forward. [1] Reform debate and study have usually focused on four aspects of the welfare system in need of improvement: benefit inadequacy; great inequities in treatment of different groups of people; undesirable social and economic incentives; and administrative complexity. Resolution of these often conflicting problems has been the objective of reformers, and many specific plans purporting to do so have been put forward. President Carter's Better Jobs and Income proposal has now moved to center stage and will be a most important item on the Congressional agenda in 1978.

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1. Relevant Federal Government reports on welfare reform include: U.S. Office of Economic Opportunity, National Anti-Poverty Plan FY 1968-FY 1972, Part 9, Program memorandum submitted to the Bureau of the Budget, June 30, 1966, reprinted in U.S. Congress, Senate, Committee on Government Operations, A New Federalism: Hearings, 93rd Congress, 1st Session, February and March 1973, Part 2, Appendix 2. President's Commission on Income Maintenance Programs, Poverty Amid Plenty, 1969. U.S. Congress, House, The Public Welfare System: Message from the President, 91st Congress, 1st Session, 1969, House Document 91-146; U.S. Department of Health, Education and Welfare, Income Supplement Program. 1974 HEW Welfare Replacement Proposal, Office of Assistant Secretary for Planning and Evaluation, October 1976; U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, Income Security for Americans: Recommendations of the Public Welfare Study, 1974. The Subcommittee also published 20 volumes of staff papers, which constitute the major compilation of detailed analyses of the current welfare system and reform issues. The development and legislative history of President Nixon's Family Assistance Plan are discussed in Vincent J. and Vee Burke, Nixon's Good Deed: Welfare Reform, Columbia University Press, New York, 1974; Daniel P. Moynihan, The Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan, Random House, New York, 1973; and M. Kenneth Bowler, The Nixon Guaranteed Income Proposal, Ballinger Publishing Co., Cambridge, Mass., 1974. A bibliography at the end of this paper lists selected publications on President Carter's Better Jobs and Income Plan.

The welfare problems being debated today reflect basically the same criticisms that were raised by HEW and OEO staff in the mid-1960's, even though there have been large increases in welfare and related programs in the intervening years. Federal actions broadening the scope of these programs include the following:

- A federalized supplemental security income (SSI) system replaced the State programs of old age assistance, aid to the blind, and aid to the permanently and totally disabled. The new federal system is more generous than many of the State programs it replaced, and benefits are indexed for inflation.

- A new food stamp program was enacted and then broadened to cover all low-income people, providing assistance to many poor people who had been completely excluded from aid before.

- An earned income tax credit was established to aid the working poor with tax reductions and rebates to offset the impact of payroll taxes.

- Sizeable across-the-board increases in social security benefits were provided during the Nixon years, and benefits were indexed for inflation. While social security benefits are not based on need, a large proportion of these benefits goes to low-income people.

- Enactment of medicare and medicaid directed billions of dollars to the payment of health care bills for the aged and certain categories of needy people.

- There has been a huge growth in the extent of federal subsidies for low-income housing.

- Aid for low-income students to attend colleges and universities has been provided [illegible] education opportunity grants program.

- And most recently, we [illegible] new money to job creation programs aimed at the disadvantaged and long-term unemployed.

We are now spending much more money than we were when we declared war on poverty. We have helped some of the poor a great deal, and some of the structural flaws in programs have been diminished. But in the view of most analysts, the basic problems remain because, despite the extensive growth and change over the last 12 years, no thorough structural reform of the system has yet been enacted.

In August 1977 President Carter sent a welfare reform bill to Congress for consideration. While his reform plan embodies new ideas, such as the integration of cash assistance with a public service jobs program, it basically deals with the same problems and includes elements similar to those found in past proposals.

The stated objectives of President Carter are essentially the same as those espoused by Presidents Johnson and Nixon: to reduce inequities; to improve work incentives; to provide more adequate benefits to the needy; to reduce the fiscal burden on States and localities, and to have a system which can be administered efficiently at an affordable cost. However, a problem with these objectives is that they are at least partly conflicting. For example, the more adequate the benefit level is, the greater the program's cost and the weaker the recipient's incentive to work. Or, for a given budget, the more fiscal relief provided to States, the less the incomes of the poor are increased. The design of a new system involves choice, trading off more of one objective against less of another. To be adopted, any new plan requires a careful balancing of these objectives. Unfortunately, making no change ratifies an implicit choice--i.e., to accept the current tradeoff among objectives and the present problems that go with it.

Another difficulty with the objectives of reform is that they do not lead unambiguously to specific program recommendations. Under the guise of meeting these objectives, numerous different approaches and plans have been put forth. Three broad types are outlined below. [2]

2. A number of specific plans have been analyzed in detail by the Congressional Budget Office. See Welfare Reform: Issues, Objectives and Approaches, July 1977. Other specific plans are discussed in the reports cited in footnote 1 and in Robert Harris, Public Policy to Provide Income Security: The Recent Politics of Welfare Reform, Urban Institute Paper, 1978, (forthcoming).

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One approach is to develop a package of incremental changes in existing programs to improve and better coordinate them, possibly adding additional programs to fill in the "cracks." A typical incremental reform proposal would simplify rules in all programs, impose a national minimum benefit standard for aid to families with dependent children (AFDC), broaden program eligibility somewhat to cover some people now excluded, but stay within the framework of current programs. Other proposals would add new federal programs, such as housing allowances, federal sharing in local general assistance costs, fuel stamps, or clothing stamps.

The incremental approach would provide more adequate benefits to some and reduce some inequities, but administrative problems in the current system could be compounded. Incremental changes would not eliminate the worst inequities or the most undesirable incentives in the current [illegible] m and could make the situation worse. Attempts to deal adequately with the reform objectives within the general framework of current programs inevitably leads to advocacy of such far-reaching changes that it is hard to maintain that they are incremental in the usual meaning of the word (i.e., small, politically easy, moving toward desirable goals).

A second approach is to restructure the existing set of categorical programs and to meet income needs through [illegible] welfare benefits for "unemployables" and good jobs for [illegible] requires [illegible] and a package of incremental reforms [illegible] current welfare programs.

If pursued on a scale large enough and with careful design, this approach can meet all of the reform objectives except administrative simplicity.

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However, such a system is likely to be too expensive to be considered seriously. Relying exclusively on jobs to provide adequate income to employables requires the government to become the employer of last resort for all low-income employables who do not have work or who have inadequate earnings. Open-ended guaranteed job programs are untested and would be very costly. If such a plan did not provide "good" jobs, (i.e., jobs at high wages) for all employables, yet left them ineligible for cash aid, the objective of adequacy would not be met. Problems also arise in attempting to develop fair, operational definitions for the difficult concept of employability, a quali[illegible], dependent upon many factors, including how tight the labor market is, public sentiments about child-rearing, and changing notions about retirement age.

A third approach is to adopt a <u>universal income supplement program</u> to provide cash aid to all in need--both current welfare recipients and needy people outside the system. This approach would provide a basic benefit for those with no income and gradually reduce benefits as earnings rose. With a moderate benefit-reduction rate, such a program can preserve financial incentives to work in the private sector and provide benefits on an equitable basis.

This approach does not preclude the possibility of simultaneous efforts to increase both the employability of the poor through service programs and the availability of jobs through general [illegible] and direct job creation. Most proponents of universal [illegible] view employment as an important [illegible] in its own right, but [illegible] problem calling for separate programs. An employment program can be designed to provide jobs to some or all of those aid applicants expected to work and integrated with a universal cash assistance plan.

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The main argument raised against this approach is the politically difficult task of scrapping existing programs to build a new system. It is also argued that the increased costs for assistance would be better spent on jobs which, while more costly, would provide local communities with services presumably not otherwise available.

The Carter reform plan, called the Better Jobs and Income Plan, includes a universal cash aid component and a job creation program. Cash assistance would be provided to all with low incomes. For those expected to work, payments would depend on their willingness to work. But if jobs were not available, they would receive aid on the same basis as those not expected to work. A large program of public service jobs would be part of the overall plan to ensure that financial work incentives and work requirements have a real chance to further the goal of economic self-sufficiency for recipients.

The authors of this paper have all contributed to the reform literature of the past decade and are currently engaged in further research on related topics. In studying President Carter's plan--which is quite complex and difficult to understand, an inevitability for any comprehensive plan translated to legislation--we posed many questions to each other and to Administration officials. The answers (which outline the nature of the plan) are presented in this paper in question-and-answer form to promote a wider understanding of the new proposal, its rationale, and the major issues now being debated in Congress. The questions posed and answers given are our own, drawn from public documents provided by the Administration in support of its plan, unpublished information provided by colleagues and government officials, the general literature on income maintenance policy, and current research in progress.

II. RATIONALE FOR A COMPREHENSIVE OVERHAUL OF WELFARE PROGRAMS

1. Have we gained ground in the war on poverty? Who has been left behind?

A person is counted as poor if total income for his or her household falls below the official Census Bureau poverty standard. The standard was developed in the mid-1960's as an estimate of a minimally adequate budget. The standard varies by family size and place of residence (urban or rural, farm or non-farm) and is adjusted annually for changes in the Consumer Price Index. In 1976, the poverty income standard for a non-farm family of four was $5,670. This amount would rise to $6,400 if adjusted for 1977 and projected 1978 price increases.

In 1976, about one out of twelve Americans had income below the poverty level, even counting federal food assistance as income. [3] The dollar value of this income gap amounted to $9.8 billion. These 18 million poor people are a much smaller group than existed two decades ago, but the sluggishness of the economy in the 1970's and the lack of assistance for some low-income people has slowed the reduction of the poverty population.

To assess the Nation's progress in reducing poverty, it is useful to look back to earlier years. Had the poverty standard existed in 1960, it would have equalled $2,980 for an urban family of four. By this standard, 39 million people--22 percent of the 1960 population--would have been counted as poor based on cash income.

3. Census data measure poverty based solely on cash income, and in 1976 one out of eight Americans was counted as poor. However, estimates that take food benefits into account have been made by the Congressional Budget Office (CBO). See Congressional Budget Office Background Paper No. 17 (Revised), Poverty Status of Families Under Alternative Definitions of Income (June 1977). The measures of poverty used in this paper were developed by CBO for their analysis by aggregating certain census poverty indices and applying weighted averages. The $5,670 figure cited above is an average for non-farm, male-headed, four-person families.

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During the 1960's the Nation experienced a sustained economic expansion which, coupled with increased assistance spending, reduced the poverty population substantially. In 1970 the poverty standard for an urban family of four was set at $3,970, and by this standard 24 million persons--12 percent of the 1970 population--were poor. The poverty population was reduced over that decade by 15 million people; the probability of being poor was cut in half. Most of the reductions in poverty--about 13 million out of the 15 million people--were in households headed by able-bodied, working-age males, households that were likely to have prospered in the tight labor markets of the 1960's. The effects of a buoyant economy more than offset the increase in poverty that the rising number of female-headed families would have prompted.

Between 1970 and 1976, the size of the poverty population was influenced by two opposing forces. The severe economic downturn that put millions out of work, coupled with a rapid price inflation reflected in a swiftly increasing poverty standard, would have increased substantially the number of poor people. However, growth in benefit payments and enactment of the new supplemental security income (SSI) for the indigent aged, blind and disabled largely offset the potential rise in poverty. In 1976, with the poverty standard for a non-farm family of four at $[illegible], 25 million people--again about 12 percent of the population--were counted as poor based on cash income. Thus, the war declared on poverty in the 1960's has become a holding action in the 1970's.

Official poverty data have been criticized because they compare the poverty standard only to a family's money income, thereby excluding in-kind income received in the form of food stamps, subsidized housing, and other

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public benefits. [4] If the implicit dollar value from food programs--including food stamps, subsidized school lunches and breakfasts, and supplemental foods for women, infants and children (WIC)--were added to recipients' money income, the size of the 1976 poverty population would be reduced from 25 million to 18 million people. However, this lower figure still amounts to eight percent of the population--one out of every twelve Americans--with income (including food benefits) below the poverty line.

As an aid in understanding the causes of poverty, Table 1 classifies the 1976 poverty population (after adjusting the data for food benefits received) by the characteristics of household heads. [5] This classification gives some idea of a household's labor market potential.

The data indicate that 21 percent of the poor live in households headed by someone who is over age 64 or disabled. Another 36 percent are in families headed by an able-bodied, working-age female. The remaining 43 percent of the poverty population live in households headed by able-bodied, working-age males.

Table 1 also shows the 1976 distribution of weeks worked by heads of poor families. Among those most expected to work--i.e., able-bodied, working-age ma[illegible]--about one-third worked year-round, and over half worked at least half [illegible] [illegible]ar. Among able-bodied, working-age female heads, about a tenth worked year-round, while nearly 40 percent worked at least sometime

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4. Health and housing benefits have not been counted as income in this paper. There is considerable debate over how such benefits should be valued in measuring income, since public housing is often undesirable and medicaid often pays for unnecessary medical treatments, making the worth of these programs to recipients far less than the cost to taxpayers.

5. The official poverty data also do not allow for the fact that taxes reduce disposable income. If taxes were deducted from each household's income in determining poverty status, the number of people in poverty would increase by 10 percent. This undercount offsets a possible overcount just announced by the Census Bureau based on analysis of the 1975 Survey of Income and Education.

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Table 1

Number of People in Poverty on the Basis of Cash Income Plus Food Benefits,[a] by Characteristics of Household Heads and Extent of Employment, 1976

Characteristics of household heads	People in poverty		Distribution of poverty population by weeks worked by household heads[b]				
	Number (millions)	Percent	0	1-26	27-46	47 or more	Total
Over age 64	3.0	16.9	71%	3%	1%	25%	100%
Under age 64 but disabled	0.9	4.2	52	—	—	48	100
Neither aged nor disabled:							
Female heads							
White	3.5	19.6	62	18	5	11	100
Non-white	3.1	15.9	63	18	6	12	100
Male heads							
White	5.5	34.4	24	32	16	29	100
Non-white	1.7	9.0	20	25	19	36	100
Total poverty population	17.7	100.0[c]	45	21	8	26	100

Source: Tabulations of the 1976 Current Population Survey obtained from the Congressional Budget Office.

a/ Household income is defined as the total of before-tax income from all sources and the implicit value of any benefits received from food stamps and other food benefit programs.

b/ The distribution for household heads was weighted by the number of people in each household.

c/ The percentage of poor people who are white is 70 percent. The proportion who are children under age 18 is 34 percent. The distribution of the poverty population by Census region is as follows: Northeast, 18 percent; South, 44 percent; North Central, 21 percent; West, 17 percent.

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during the year. Thus, many of the poor who can work do work. Moreover, it is reasonable to expect that, if aggregate demand were higher, work effort w ;ld be higher and the poverty count lower.

But poverty will not go away with full employment, since low wage rates, the needs of large families, the ineffectiveness of benefit programs, and individual infirmities cannot be expected to melt away in the warm light of economic recovery. In 1969, when the unemployment rate was 3.5 percent, a booming economy by historical standards, 24 million people were still poor, including many full-time workers. This fact has led many analysts to conclude that a program of general income supplementation is needed.

2. How do current programs affect the poverty population?

Low-income people currently receive government assistance from a variety of programs which fall into three broad categories. First, there are social insurance programs, including social security, unemployment compensation, and workers' compensation programs, whose benefits have been earned through prior participation in the labor force. The second category of programs provides cash benefits based on need and includes supplemental security income (SSI), aid to families with dependent children (AFDC), and local general assistance. The third category of programs provides non-cash benefits based on need in a manner similar to needs-tested cash programs (i.e., income is supplemented based on financial need). However, benefits are given in kind (e.g., food stamps, subsidized housing, and free medical care under medicaid).

These programs significantly reduce the extent of poverty. The following figures from census tabulations obtained from the CBO indicate what the poverty population would have been in the absence of government programs:

Sources of Income Counted	Potential Poverty Population in 1976 (millions)
Private sources only (includes earnings from public service employment)	45[6/]
Private sources plus social insurance benefits	28
Private sources, social insurance benefits and cash needs-tested aid	24
Private sources, social insurance benefits, cash needs-tested aid, and food assistance	18[7/]

If government programs were eliminated and people only had income from private sources, the 1976 poverty population would have been 45 million. Social insurance benefits (including social security) educed this number to 28 million. Cash needs-tested aid reduced this number by another four million people, and food aid lowered it by anoth r six million. Nonetheless, the poverty population stands at 18 million, /en when all these income sources are considered.

3. What are the main problems with current programs?

Current assistance programs have been criticized for many reasons. The most widely heard criticisms include the gaps in coverage, inadequate benefits in some areas, unfair disparities in benefits, impediments to work, inadequate administration, and the excessive cost burden placed on some State and local governments. An overriding problem is that the programs

6. This number is overstated. If there were no social security system, for example, some individuals might have put away more savings for retirement.

7. If housing assistance were counted, the number in poverty rounds to 17 million. Counting public medical benefits as income would reduce the poverty population to 12 million. However, the analysis in this paper does not include such benefits since methods to assess their value to recipients as income are not widely concurred in at this time.

do not mesh together as a national system, and the resulting inability of the Federal Government to alter systematically the incomes of the poor in a quick and direct fashion inhibits public policy decisions in fields such as energy or taxation. (The Appendix describes the nature and size of each major program.)

Gaps in coverage. Virtually all poor people are eligible for food stamps, but nearly half are eligible for nothing more. Recent estimates indicate that 46 percent of the poverty population lives in households ineligible for cash assistance under either AFDC or SSI, the two major cash assistance programs. [8] This gap in coverage is a serious inequity in public treatment for people with like needs.

Most of those poor but ineligible live in two-parent households with able-bodied heads. A second group left out are single individuals and childless couples who are neither aged nor disabled. People aged or disabled are covered by the SSI program. Families with children headed by an able-bodied single parent are covered under AFDC. A two-parent family with children headed by an able-bodied male may be eligible for cash assistance under the unemployed father (UF) provisions of AFDC, but only in about half the States. And in those States, the program contains a number of eligibility restrictions which, among other things, preclude a family from receiving assistance no matter how low the family's income if the father is working more than 100 hours per month. Since almost half the poor are in families headed by able-bodied males, the limitations of AFDC-UF coverage deny cash assistance to a significant proportion of poor families.

8. Diane D. Zentay, Welfare and Poverty Populations, report prepared for the Department of Health, Education and Welfare by Mathematica Policy Research, Inc. (December 1976).

Inadequate and unfair benefits. As noted above, many poor households are ineligible for cash assistance. But some who are eligible receive aid at very low levels. Today, 26 States pay AFDC cash benefits at rates less than two-thirds of the poverty standard (less than $321 per month for a family of four). In four of these States, even the addition of food stamp benefits yields a total less than $321 monthly for a family of four. The wide disparity in benefit amounts among the States (from $256 monthly for AFDC and food stamps in Mississippi to $560 in New York, to $673 in Hawaii), is generally regarded as unfair, since the result is greater federal support for some poor people than for others based solely on place of residence.

Work efforts not encouraged. Many people think that existing welfare programs do too little to encourage recipients to work. In fact, most welfare programs do attempt to encourage work either through financial work incentives or work requirements. However, as currently practiced, both methods have serious shortcomings.

Programs like food stamps, AFDC, and public housing all provide financial incentives based on the same principle--if a person's earnings increase by a dollar, program benefits should decline by less than a dollar, thereby leaving the person better off for having worked. However, a problem arises because the typical recipient benefits from two or more programs. In such situations individual program benefit reductions are at least partially additive and can offset almost totally any additional dollars earned, thereby leaving no monetary incentive for the person to work. For example, although actual rates vary among States depending on how work expenses are deducted and how payments are related to need, AFDC alone can reduce benefits by as much as 67 cents for an added dollar of wages. For the more than two million families receiving both AFDC and food stamps, this reduction rate can be as high as

77 percent, or 85 percent for the roughly 300,000 of these families who also have their rents publicly subsidized. While the rates are not this high in many cases, rates approaching these upper limits can apply to discourage work. In some instances where eligibility is denied to persons who work full-time (e.g., in the AFDC-UF program), additional earnings can leave a family worse off financially.

A major difficulty with present work requirements is administrative. In today's labor market with high unemployment rates, it is hard for a local administrator to determine whether or not a person has made a good faith effort to find a job. There is no easy way to distinguish lazy recipients from those who honestly cannot find work. Also, work requirements are ineffective in dealing with reductions in work effort when the reduc ions are in overtime work, second jobs, or secondary workers' jobs.

Finally, gaps in coverage and disparities in benefit amounts make a travesty of self-help efforts, since people on welfare in high-payment States often have total incomes greater than comparable families with heads working full time. For instance, a four-person family in Oregon can receive $549 a month from AFDC and food stamps, $90 more than a person not on welfare would earn in a full-time job at the minimum wage.

Administrative weakness. Current programs have gained a reputation as error-ridden and prone to fraudulent manipulation, although this situation is improving to some extent. In 1974, HEW audits found that 44 percent of all AFDC cases involved some type of benefit or eligibility error. Today, that error rate has been reduced to 22 percent, and some States have welfare administrations which are first-rate.

Nonetheless, two problems remain. First, some States have been slow to adopt the best current administrative practices. We know, for example, that case errors are substantially reduced by adequate staff education, frequent case reviews, and other simple procedures. Yet, many States have neglected to institute such improvements. [9] Second, the wide variety of complex aid programs imposed on the States through federal legislation and regulations makes good management difficult. Each program requires separate forms and administrative structures, and the multiple bureaucracies invite confusion and mistakes in program administration.

Fiscal burden on State and local governments. In 1976, the combined expenses of AFDC, SSI, food stamps, medicaid and other welfare programs, including public service job creation, totalled 3.5 percent of the gross national product. About two-thirds was paid by the Federal Government with the remainder--about $15 billion--flowing from State and local treasuries. This burden often falls heavily on States with large welfare costs, and on counties and cities as well in New York and a few other States. State and local organizations have increasingly advocated a greater federal assumption of program costs. There is also a general awareness of the national nature of the poverty problem and the inability of State and local governments to adjust budgets quickly to sharp changes in costs prompted by such factors as national changes in unemployment, inflation, interregional migration, and local layoffs resulting from national trade or energy policy.

Poor instrument for implementation of national policy. As already mentioned, current assistance programs vary widely in coverage and benefit levels. Administrative control is vested in a large number of different agencies at all levels of government, and legislation is subject to the

9. See Marc Bendick, Jr.'s testimony before the House Government Operations Committee, Subcommittee on Intergovernmental Relations and Human Resources, October 4, 1977. Also, see Marc Bendick, Jr., Abe Lavine and Toby H. Campbell, The Anatomy of AFDC Errors, Report 5902-01, Washington: The Urban Institute, 1978 (forthcoming).

jurisdiction of numerous committees in both House and Senate as well as the 50 State legislatures. And the courts are frequently called upon to correct defects in these laws or the regulations drawn up to implement them.

This chaotic lack of control leaves the Federal Government with no system it can use to alter the incomes of poor families in a timely manner in conjunction with major national policy initiatives. This situation can inhibit the bold action that may be required to change energy pricing policy or to revamp transportation systems.

For example, a tax on gasoline to reduce consumption might be opposed because it raises transportation costs to prohibitive levels for the poor. Lack of an integrated assistance system to offset this effect makes consideration of such an option a largely futile exercise. Another example is the use of tax cuts to stimulate the economy. To avoid inequitable treatment of people with no tax liability, the 1975 tax cut was accompanied by special $50 payments to social security beneficiaries. However, a majority of poor people do not benefit from that system, and many social security beneficiaries are well-to-do. Thus, in the absence of a direct systematic way to deal with the equity problem, this attempt at equity targeted public funds inefficiently and precipitated needless administrative intricacies and a lack of public understanding.

4. Can welfare programs be restructured incrementally?

Some welfare analysts have suggested that welfare reform would be best accomplished through an incremental strategy of piecemeal improvements to existing programs. [10] It is possible to design a series of incremental changes which, taken together, would achieve several major objectives

10. A recent expression of this viewpoint may be found in Richard P. Nathan's testimony before the House Subcommittee on Welfare Reform on October 12, 1977.

of the Administration's proposal or any other comprehensive reform plan. Nonetheless, such incremental proposals are subject to an important semantic qualification--that is, they may be too big to be called "incremental" in the usual sense of the word, even though building on existing programs "incrementally."

The incremental reformer's agenda usually begins with establishment of minimum standards in the AFDC program. This change would require that States pay at least a minumum benefit in the AFDC program and that all States offer the AFDC-UF program. The basic proposal can be elaborated in a variety of ways. For example, in order to combine these minimum standards with fiscal relief for the States, the Federal Government could finance 100 percent of the minimum benefit for each recipient while giving States the option to supplement the minimum benefit to higher levels. In order to safeguard its fiscal interests, the Federal Government might require that, if it is to pay 100 percent of the minimum benefit, it would also administer the minimum benefit, thereby moving AFDC toward the administrative model developed in SSI. [11] An AFDC program with national standards would begin to resemble the cash assistance component of the Administration's proposal. [12]

A second incremental step would involve an expansion of current Comprehensive Employment and Training Act (CETA) programs combined with a

11. Here, however, is an example of the semantic qualification mentioned above, for few would call SSI an incremental change even though it built on existing programs of categorical aid.

12. There would be three major differences. First, the Administration proposal involves paying different benefit levels to those expected to work and those not expected to work. AFDC and AFDC-UF make no such distinctions. Second, AFDC-UF contains the 100-hours rule in which a family, no matter how low its income, is ineligible for benefits if the principal earner is working more than 100 hours per month. The Administration's proposal keys benefits to income alone and has no additional limitation based on hours worked. Finally, the Administration proposes to cover all individuals (for whom work is not available). AFDC and AFDC-UF are open only to families with children.

more direct targeting of CETA jobs on welfare recipients. Currently, Titles II and VI of CETA are expected to create 725,000 jobs, about half the number envisioned in the Administration's proposal, and targeting public service jobs on low-income applicants has begun only recently. In addition, CETA jobs currently pay wage rates well in excess of the minimum wage. These wage rates make the jobs attractive to a much broader group than just AFDC recipients and the working poor. Thus, current wages create pressures that would weaken attempts at further targeting of the program. Of course, a limit on wages coupled with a program expansion would create a jobs program that generally would look like the jobs component of the Administration plan. The similarity would be even stronger if first priority for jobs went to AFDC recipients.

A third incremental step might involve expanding the earned income tax credit (EITC). Currently, these credits, which are refunded to families with no tax liability, equal 10 percent of annual earnings up to a limit of $4,000 and phase out for higher earnings, ending at $8,000. The Administration's proposal has modified this formula so that a family's maximum reimbursement would depend on family size. Alternative modifications of the EITC are currently being examined by the Congressional Budget Office. Adoption of any one of these proposals would be a step in the direction of the Administration plan.

However, the cost of these three changes to AFDC, CETA and the EITC would be in the billions and is certainly more than would usually be implied by the term "incremental". Moreover, major administrative changes would be required as well. Thus, to achieve improvements of this magnitude, it is tempting to think in terms of an entirely new system, particularly since even the changes discussed above would leave several important reform objectives untouched. For example, the President's plan reinforces work incentives by a two-tier cash benefit structure in which those expected to work are paid lower benefits than those not expected to work. Incremental changes to AFDC and AFDC-UF would not provide such an incentive. Second, the Administration's proposal, by consolidating a variety of programs, hopes to make significant savings and improvements in administrative practices. An incremental proposal, by retaining separate program administrative structures, would make fewer improvements in this area. Finally, the Administration's proposal involves coverage of all individuals, whereas an incrementally reformed system based on AFDC and the current EITC would aid only families with children, though such coverage could be broadened through further "incremental" changes. Such actions, of course, would take the incremental reforms further in the direction of comprehensive reform.

5. Should reforms be tried out on an experimental basis first?

It has been argued that dramatic changes in welfare programs should be postponed pending pilot tests of proposed reforms to avoid enactment of ineffective new laws. The Administration has moved ahead with its proposal in the belief that further experimentation is unnecessary. Since many elements of their proposal have been studied and tested in great detail over the past decade, that course can be justified.

In particular, program designers can draw upon knowledge gained from

- Close study of the effectiveness and administration of current welfare programs, including establishment of a quality control system to improve management.
- Large-scale experiments of alternative income maintenance plans, many of which are similar to the cash program proposed.
- The implementation in 1974 of the SSI program, which replaced State welfare programs for the aged, blind and disabled with a federal system.

III. DESCRIPTION OF THE BETTER JOBS AND INCOME PLAN

1. How would the new system work?

The Better Jobs and Income Plan would address the many problems with the current welfare system, providing income support to the needy in a fairer way and assuring strong work incentives through financial rewards for work, a strong work requirement, and direct creation of jobs. (Although this paper discusses the new employment program as a jobs program, some of the proposed 1.4 million slots could be used for training as well.) Several current programs would be replaced with the new system. The basic federal plan would work as follows:

- A new program of public service employment would provide up to 1.4 million jobs for poor adults in families with children. HEW and DoL estimate that a program of this size should provide for one job per family for all low-income families in which an adult is expected to work to contribute to family support. This jobs program would replace the work incentive (WIN) program, which has not been successful in moving welfare recipients into jobs, and the CETA Title VI jobs program, which only recently began to target jobs primarily on low-income, and long-term unemployed workers. [13]

- A simplified, fairer cash assistance program would provide aid to all Americans with inadequate family income, either as a basic support payment or as a supplement to low earnings. This new program would replace AFDC, SSI, and food stamps, which now provide assistance in an uncoordinated and fragmented way, with an integrated cash assistance plan that would reduce the great benefit disparities across the country and among different groups of the poor. Its simplified structure also should greatly reduce possibilities for error, fraud, and abuse, and maintain strong work incentives.

- An expanded earned income tax credit (EITC) would provide additional supplementation to low-income workers in private sector employment. This would be an integrated component of the new system, along with the jobs and the cash assistance program.

13. See Hearings Before the Senate Budget Committee, First Concurrent Resolution on the Budget--Fiscal Year 1978, Volume III (April 9, 1977), especially pp. 39-40.

- Several years of increasing outlays for public service employment programs, which increasingly have been more closely targeted on the poor.
- Several years of operation of the earned income tax credit.
- Studies conducted for Congress in its 1977 reform of the food stamp program.

The reform proposal addresses welfare problems on a comprehensive basis, but it contains few new or unknown components. Delaying enactment for further experimentation would be a tradeoff between the chance that testing would significantly alter the proposal, on the one hand, and the certainty that delay would postpone the many improvements the new system promises, on the other.

Of course, enactment without prior experimentation would not preclude pilot projects immediately following enactment to field-test the administrative arrangements, computer systems, and staff training programs that would have to be adopted by the Departments of Health, Education and Welfare (HEW), and Labor (DoL).

The three components of the plan are intended to provide both incentives to seek work and financial reward from work. The cash benefit system serves as a nationally uniform "safety net" under all incomes for those who cannot attain an adequate wage and need such support.

A work requirement would be imposed on all recipients expected to work, with greatly reduced benefits paid for an initial eight-week period during which job search is expected. Public service jobs could be offered to those who cannot find private employment within five weeks. Refusal to accept a job without good cause would result in loss of benefits for the person expected to work. Only if a private job could not be found during the waiting period and a public job were not available would maximum benefits be paid to someone expected to work. There would be a monetary incentive for individuals to continue to seek private sector jobs even while in public employment, as the EITC would further increase private earnings.

In general, federal cash benefits would be reduced by no more than 50 percent of earnings, providing a substantial financial gain from work. This feature meets two important objectives--to provide incentives for individuals to seek and take jobs, and to improve equity for working people, who would have more total income than non-workers.

2. Who would be expected to work?

People who are aged, blind or disabled would not be expected to work, nor would single parents with pre-school children (under age 7). One adult in all other households would be expected to work. [14] In particular:

- One adult in two-parent households would be expected to work.

- Single individuals and childless couples would be expected to work.

14. An adult who must care for a disabled person would not be expected to work.

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- Single parents with no children under age 14 would be expected to work.
- Single parents with children ages 7-13 would be expected to work part-time during school hours.

This work requirement is based on the prevailing customs in American society today. Women with children in school would be expected to work under the plan, as that is now the customary practice of such women not on welfare. In 1976, about 45 percent of all married women with children were in the labor force (52 percent for those with no pre-school children). The labor force participation rate for unmarried women with children is even higher.

Adults in families with children who are expected to work would still receive benefits if family income were inadequate, but on a lower scale than adults not expected to work. There are good reasons for including these workers in the assistance system. Even under the best of circumstances, with relatively low unemployment, many employed people will remain poor, and the proposed plan would pay income supplements to them. (Food stamps and local general assistance programs provide such supplements now). Unless wages for public service jobs were set at unrealistically high levels, it would be necessary to provide income supplements to these jobholders as well. Thus, even greatly expanded job opportunities would not render cash assistance unnecessary.

The cash assistance proposed in this plan to supplement low earnings would decline automatically as employment opportunities improved. The plan as proposed could be coordinated with general economic policy and job creation programs.

3. Who would get a public service job?

If an adult expected to work were in a household with children present, that adult would be eligible for consideration for public service employment at the minimum wage if he or she could not find a private job. Only one public service job could be held by members of a given household (namely the household's primary earner). No income or assets test would be applied for job eligibility.

The proposal calls for 1.4 million such jobs, a number which limits the availability of these jobs but which should be sufficient, based on estimates of the number of adults defined as expected to work who would gain financially from taking a public service job. If no job were available, a person expected to work whose family meets the income and asset tests for cash assistance would receive the same benefits as a similarly situated adult not expected to work.

The categorical limitations on job eligibility and the 1.4 million ceiling on slots are necessary to avoid the many problems involved in guaranteeing a job to every person who might want one. Even the modified Humphrey-Hawkins bill recently endorsed by President Carter avoids such an open-ended commitment. A guaranteed jobs program at the minimum wage open to all comers would require several million more jobs at a cost in the tens of billions. Such a program would be difficult to finance and even harder to administer. Creating and running government operations providing that many new jobs, if they were to be real, productive jobs, would be an immense undertaking.

4. <u>How would cash benefits be determined?</u>

The plan includes a two-tier benefit structure to provide different benefits for recipients expected to work and those not expected to work. The higher schedule of benefits would apply to households in which no adult is expected to work. If a member of an eligible family were expected to work, reduced benefits would be available (the lower tier), since these units would be expected to have earnings. If a job were not available, either in the private sector or in public service employment, then units containing a member expected to work would move to the higher benefit schedule (the upper tier). In both cases, federal benefits would be reduced by no more than 50 percent of earnings to provide financial work incentives and ensure that work results in higher income.

Federal benefits would depend also on family size, age of children, and other demographic characteristics related to need. For most current recipients, the new plan's federal benefits would exceed current food stamp benefits plus the federal contribution to AFDC or SSI. With State supplementation, total incomes of most recipients would at least equal those under current programs.

Benefit amounts could be determined more easily than under the present system. Currently, many States compute each family's actual budgeted monthly needs under their AFDC standards in great detail. The new system would not require such individualized calculations. Examples of proposed annual federal benefit levels are shown below. (State supplementation would be encouraged but would have to follow the same basic structure to maintain work incentives and administrative simplicity.)

- An aged, blind or disabled person with no income would receive $2,500; a similarly situated couple would receive $3,750. These amounts exceed slightly the current federal SSI and food stamp benefits for similar people.

- A penniless single-parent family with three children, at least one of whom is under age 7, would receive $4,200 on an annual basis, an amount greater than the federal share of AFDC and food stamps in all but seven States.

- A four-person family with an adult expected to work would receive $2,300 on the lower tier. (If a job were not found or offered by government in eight weeks, the higher benefits would apply.)

- An unrelated single person would receive annual benefits of $1,100, and a couple without children would receive $2,200, but only if jobs were not available. These amounts exceed their current food stamp benefits. (If jobs were available but refused, they would receive no benefit. If they work at low wages, they might be eligible for supplemental benefits.)

In all cases, whether individuals were expected to work or not, total income could be increased by earnings or income from other sources. In cases with earnings, benefits would be reduced gradually by 50 cents per dollar of earned income, providing earnings supplements that taper off as earnings rise.

Federal benefits for most specific cases can be computed from the accompanying reference table (Table 2). However, there may be certain situations not covered by the policies proposed thus far. For example, foster children may now receive AFDC benefits, even though the foster parents may not qualify as AFDC eligibles. The Administration plan appears to make no such exception for families with foster children in their bill.

Table 2

Reference Table for Federal Cash Benefits under the Better Jobs and Income Plan

A. Annual Federal Benefits: No Adult Expected to Work, No Other Income

Number and type of adults in household unit	Adult benefits a/ b/		Additional benefits per child c/	Total benefits, family of four
	No children	Children present		
One adult--aged, blind or disabled (ABD)	$2,500	$2,900	$600	$4,700
Two adults--one ABD	2,700	3,500	600	4,700
Two adults--both ABD	3,750	4,000	600	5,200
Single adult--not ABD	1,100	2,400	600	4,200
Two adults--neither ABD	2,200	3,000	600	4,200

a/ The adult benefit per unit would be increased by the presence of children only for one adult. That is, two or more adults in the same unit could not each claim added amounts for the presence of children in the unit.

b/ Deduct $800 if unit lived in household with another unit. If two related units shared household rights or ownership, each unit's grant would be reduced by $400.

c/ For a disabled child, add $1,100 instead of $600. Increments per child would apply only for units of seven or fewer members.

B. Deductions to Reach Lower Benefit Tier for Adults Expected to Work

1. If a family member in a household with children were expected to work, the basic adult benefit would be reduced by $1,900;
2. Single individuals and childless couples generally would be expected to work, and benefits would be reduced to zero.
3. After an eight-week search period, if a private job were not found and a public job were not available, those expected to work would move to the higher benefit schedule (see "A" above).

Table 2 (cont'd)

C. Basic Benefit Adjustments for Earnings and Other Income

1. Deduct 50 percent of earnings from basic federal grant, in general.

2. In families with an adult expected to work, disregard the first $3,800 of earnings in the benefit reduction calculation.

3. For one-parent families, up to $150 a month could be disregarded for child care expenses of a working parent with one child, or up to $300 for two or more children.

4. Reduce benefits by 80 percent of non-employment income (e.g., interest, annuities, rent, social insurance benefits).

5. Reduce benefits by 100 percent for other federal assistance payments (e.g., VA pensions).

D. Calculation of Federal Benefit Payable

Benefit paid = basic benefit from A, less applicable deductions described in B and C.

Source: Derived by authors from "Benefit Structure and Computation", and "Filing (or Eligible) Unit", U.S. Department of Health, Education and Welfare, Office of the Secretary, Staff Papers on the Better Jobs and Income Act - HR 9030, October 3, 1977.

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5. <u>How would the earned income tax credit be changed?</u>

The earned income tax credit (EITC), a refundable credit originally enacted in 1975 to offset the impact of social security taxes on low-income workers, would be retained under the President's proposal. However, certain changes would be made in the EITC to coordinate the credits with the proposed new cash benefits. The credits as modified would provide strengthened incentives to seek private sector employment since credits would not apply for public service jobs.

<u>The existing EITC</u>. The EITC now provides a worker with children 10 cents per earned dollar up to $4,000, with the maximum payment of $400 ($4,000 multiplied by .10) reduced by 10 cents per dollar above earnings of $4,000, thus phasing out at $8,000. This 10-cent reduction of the credit for each dollar earned between $4,000 and $8,000 has the same effect as a 10-percent tax on earnings over that income range. An example of how the current EITC is calculated is shown below:

Gross earnings	EITC calculation		EITC amount
$4,000	.10 x $4,000 = +400		$400
6,000	.10 x $4,000 =	+400	
	.10 x ($4,000 - $6,000) =	-200	
		+200	200
8,000	.10 x $4,000 =	$+400	
	.10 x ($4,000 - $8,000) =	-400	
		0	0

<u>The proposed EITC</u>. If the EITC were not changed, the financial return from work would be less than desired, because the 10-percent EITC phase-out rate between $4,000 and $8,000 would add to the basic federal cash assistance phase-out rate of 50 percent under the proposed welfare reform, creating,

in effect, a 60-percent tax on earnings between $4,000 and $8,000. The EITC would be changed so that the phase-out would not begin until earnings were above the federal cash benefits eligibility ceiling. To illustrate, for a family of four, 10 cents per earned dollar would be paid up to $4,000 in earnings, 5 cents per earned dollar would be paid up to $9,100, and the EITC would be reduced by 10 cents per earned dollar above $9,100, falling to zero at $15,650. Following is an example of how the proposed EITC is calculated for this family:

Gross earnings	EITC calculation		EITC amount
$4,000	.10 x $4,000 = +400		$400
8,000	.10 x $4,000 =	+400	
	.05 x $4,000 =	+200	
		+600	600
12,000	.10 x $4,000 =	+400	
	.05 x $5,100 =	+255	
	.10 x ($9,100-$12,000) =	-290	
		+365	365
15,650	.10 x $4,000 =	+400	
	.05 x $5,100 =	+255	
	.10 x ($9,100-$15,650) =	-655	
		0	0

The proposed EITC would be more generous than current law for all earnings levels above $4,000. Therefore, it would help assure more adequate total incomes for low- and moderate-income workers. Moreover, it would provide tax relief to moderate-income workers whose real incomes have fallen because of inflation and higher social security taxes.

Table 3 summarizes further details of the changes proposed for the EITC.

Table 3

Major Differences between Current and Proposed Earned Income Tax Credit

Feature	Current EITC	Proposed EITC
Periodic disbursement	Only computed and disbursed once a year when income taxes are filed.	Disbursed regularly through withholding adjustments; end-of-year reconciliation when income taxes are filed.
Relationship to family size	Standard formula for all family sizes.	Phase-out points are family-size related, so that phase-out begins slightly above federal cash benefits eligibility ceiling for each family size.
Eligible families	All families with dependent children.	All families with dependent children, except that credit cannot be paid for earnings derived from special public service jobs in order to enhance attractiveness of private-sector jobs.

6. How would total family income be determined from the combination of work, cash benefits and EITC?

The cash benefit program would provide a base income upon which individuals would be expected to build--through social insurance benefits earned in the past and past savings as well as current earnings. Federal cash assistance would decline with receipt of income from other sources in a way that would lead to higher total family income generally. This can best be illustrated by tracing through the system's impact on a family under a variety of circumstances:

- A penniless mother and three children with one child under age 7 would be eligible for an annual benefit of $4,200 ($2,400 for the mother plus $600 for each child). With no other income, the $4,200 would be the total family income unless supplemented by the State.

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- If the family received social security survivors' benefits of $1,200 a year, the assistance payment would be reduced by 80 percent of that amount ($960) to $3,240, providing a total income of $4,440 ($1,200 plus $3,240).

- When the children are older, the mother would be expected to work. Family benefits would then be reduced by $1,900, at an annual rate, to $1,340. With her social security income, annual income would then be $2,540. This reduction would apply for up to eight weeks of job search. If no job were found or offered by government during that period, family benefits would be resumed at the higher tier rate. If a job were found at the minimum wage of $2.65 per hour, benefits would be calculated as shown in Table 4. Table 5 shows total income for employment in both private and public jobs.

In effect, the benefit system would provide basic income support upon which individuals could build through their own efforts. The family in the example is assured $4,200 of basic federal support when the children are young and there is no other income. With social security benefits, total family income rises to $4,440. When the children are all in school, the mother is expected to work and federal support drops, unless no job is available. Family income only declines permanently if the mother refuses to work. If the mother accepts work in a public job, then family income increases to $5,190 if she works half time (youngest child under 13) and $7,090 if she works full time (all children over 13). Work in the private sector increases income further. Table 5 shows the progression up the income scale as circumstances change for this family.

These tables show income taking into account federal benefits only. If the family lives in a State with higher benefits currently, and that State chooses to supplement the federal benefits, total family income would be higher in each case.

Table 4

Calculation of Annual Benefit for a Family of Four
(mother and three children, mother expected to work)

Steps in calculation (from Table ?)	Annual amounts if mother works:	
	Half-time	Full-time
Basic benefit	$4,200	$4,200
Reduction, expected to work	-1,900	-1,900
Lower tier benefit	2,300	2,300
Reduction for $1,200 social security benefit	- 960	- 960
Net benefit, no work	1,340	1,340
Reduction for earnings[a/]	- 0	- 750
Net benefit paid	$1,340	$ 590

a/ Earnings at $2.65 per hour are $2,650 for half-time, $5,300 for full-time work on annual basis. Disregard first $3,800 of earnings, deduct half of remainder. Examples assume no child care costs.

Table 5

Differences in Total Annual Income for a Family of Four Under Various Circumstances

Circumstances of mother and three children (per example in Table 4)	Family income at annual rates, by source				
	New cash benefit	Social security	Earnings	EITC	Total
1. No other income	$4,200	-	-	-	$4,200
2. Eligible for $100 a month in social security benefits	3,240	$1,200	-	-	4,440
3. Mother works half-time in public service job[a]	1,340	1,200	$2,650	-	5,190
4. Mother works half-time in minimum-wage private job	1,340	1,200	2,650	$265[b]	5,455
5. Mother works full-time in public service job[a]	590	1,200	5,300	-	7,090
6. Mother works full-time in minimum-wage private job	590	1,200	5,300	465[c]	7,555

a/ The public jobs referred to are those that would be created under the Better Jobs and Income Plan to provide work for adults expected to work under the proposed rules for cash assistance. Such job-holders are not eligible for the EITC. Regular public employment would make the job-holder eligible for the EITC on the same basis as a private-sector job.

b/ The credit is 10 percent of the first $4,000 of earnings (in this case, .10 X $2,650).

c/ The credit is 10 percent of the first $4,000 of earnings plus 5 percent of the next $2,000 (in this case, .10 X $4,000 plus .05 X $1,300).

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7. Why is the proposed system so complex?

The proposed system is no more complicated than the economy in which we live. The system has several components that make up family income because it is necessary to accomodate to a complex economy in which different sources of income are available to people depending on past earnings, savings, current earnings, the tax system, and the welfare system.

However, even with this complexity, the new system would be much simpler to understand than current welfare programs. It would be possible under the new system, given a family's income and composition, and the information in Table 2, to make unambiguous calculations of federal benefits and total family income, as previously illustrated. State supplements would be encouraged to follow the basic design of the federal benefit system. The current system bases benefits upon many more factors (e.g., rent, cost of work clothing), some of which are not standardized even within States.

THE CARTER BILL — IS IT WELFARE REFORM?

Carolyn Shaw Bell

According to Secretary Califano, H.R. 9030[1] represents a "workable and fair new welfare system." The legislation contains an implicit analysis of the causes of poverty and the remedies for it as well as an implicit guarantee of help to poor families and individuals. But the proposals rest on a set of value judgments about the way people live — how they should choose or be persuaded to choose about having children, having jobs, working for pay or working without pay. And what deserves closer examination is what is *not* expressly stated in H.R. 9030; it is these implicit assumptions that determine whether or not the "new welfare system" is workable and fair.

The Welfare System

Others have objected to the word "system" applied to what the Congressional Budget Office more realistically calls "a collection of overlapping and ill-coordinated fragmented Federal and state income assistance programs. Moreover, the bill's title, "Better Jobs and Income Act," also avoids the term "welfare." Since, however, the legislation is directed to "low-income families and individuals," and to "families with children," it implies these are the people currently served by welfare.

The meaning of the term "welfare" needs two other comments. First, many people equate it with one income assistance program, that of Aid to Families with Dependent Children. Most of these families consist of a mother and children, with no husband or father present. Second, and in some way connected to the first, the word "welfare" has become an invidious term, as in "welfare mother," never a phrase used in compliment.

[1] Editor's Note. H.R. 9030 was the first presentation of the Administration's "Program for Better Jobs and Income." It was subsequently supplanted by the adaptation of the Corman Subcommittee, H.R. 10950.

Of course, AFDC does correspond to the population described above — low-income families with children. But it represents only one-fifth of total government expenditures on welfare programs if that term is more closely defined as income transfers to people with pre-transfer incomes that fall short of some established figure. (Welfare goes to the needy; demonstrating "need" requires a means test, some proof of poverty or income deficiencies of some kind.) And AFDC expenditures account for only five percent of the total spent on income assistance programs, including transfers to people whose eligibility does not depend on proof of need.

Nor is it correct to trace public concern with "the welfare mess" to some sizeable rise in the AFDC program expenditures in 1976 represented a smaller proportion of both welfare and income assistance than in 1966. If H.R. 9030, its discussion in Congress and elsewhere, helps to make people aware of other major welfare programs and the comparatively small contribution of AFDC to the economic burden of income transfers, it will be a major accomplishment.

The bill would replace AFDC, and it would also do away with Supplemental Security Income, which in 1976 accounted for 13 percent of total welfare expenditures, down from 29 percent ten years earlier. Moreover, it would end the Food Stamp program where expenditures have grown to 20 times their 1966 total. It does not, however, even mention the third major program of cash transfers to needy people: veterans' pensions, which in 1976 cost six percent of total welfare spending, but is rarely described as "welfare."

The Congressional Budget Office identifies seven other means-tested programs, including food donation, national school lunches, housing assistance, Medicaid, the earned income credit, and general or emergency assistance. Some of these currently define eligibility by referring to AFDC or SSI and they will, therefore, be affected by H.R. 9030. But *income assistance*, the term used in the bill, also includes three major social insurance systems: social security, government retirement, and unemployment insurance. Expenditures for these, in 1976, called for three times as much spending as all the welfare programs put together. Furthermore, it is in this area that spending has burgeoned: 1976 amounts represent five times the 1966 sums. And research from the Institute for Socioeconomic Studies, using an even broader definition of both "income" and "assistance," has identified some 182 Federal programs, costing $250 billion, as opposed to

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the $141 billion figure used so far.[2]

Clearly, to establish a "fair welfare system" requires a social consensus. First, we need a wider understanding of *welfare* as opposed to income assistance and more appreciation of the numbers of people currently affected by all the various programs. Then we need some general agreement about what is fair. All transfers represent flows of income from one set of people, who earn it, to another set of people, who receive it. There exists some limit as to how much income people will agree to transfer, but it cannot represent a constraint for any one program, unless people have full information about the range of all transfers.

There also exist, however, public attitudes as to what is "fair," that make some transfers very close to voluntary sharing of income, while other transfers are deeply resented: veterans' pensions may be an example of the first, while Aid to Families with Dependent Children with unemployed fathers probably represents the second. These conclusions appear to reflect two types of attitudes: those toward the recipients of income transfers, and those toward the reasons for income transfers. And, once a transfer system has been established, there is no guarantee that either or both of these attitudes will not change.

Something of the kind appears to have happened with AFDC, which orginated in the 1930's as a program to enable children to grow up at home even when their widowed mothers had no means of support. The prevailing social attitude, expressed in Congressional hearings and public debate, defined the mother's place as in the home rearing her children: Aid to Dependent Children (as it was first established) was to free her from pressure to get paid employment so as to support her family. Since the present AFDC program contains a work *requirement* for mothers continued in H.R. 9030, a significant shift has occurred in attitudes.

To some extent it coincides with the same social developments that have doubled the percentage of married women in the labor force. People have changed their minds about the reasons for AFDC, why families with children need help. About half of all mothers with youngsters are now in the labor force, a percentage which almost triples the rate existing in 1948. They now earn income to support their families. Why, therefore, provide income to other mothers who

[2] William J. Lawrence and Stephen Leeds, An Inventory of Federal Income Transfer Programs, Fiscal Year 1977. The Institute for Socioeconomic Studies, White Plains, New York, 1978, pp. 219, $12.

do not have jobs helping to support their children?

It is also highly likely that the shift in attitudes reflects public awareness of the changing character of the *recipients* of AFDC. They are not widows and their orphans these days, but single mothers, deserted and divorced wives with their children, and poor families with both parents present.

The public ideas about what is fair will influence the course of H.R. 9030 through Congress and, more importantly, the success or failure of any income assistance program. How does H.R. 9030 identify recipients, and will the identification be acceptable?

Who Gets Income

The bill divides the potential recipients of income assistance into two groups: those who will be expected to work at paid jobs and those who will not. The first will receive "jobs, training, and income supplementation," the second will receive "income support" only. The language could also be interpreted differently: two kinds of benefits will be provided, jobs and income. But benefits will not be distributed equally: jobs *and* income will go to one group of people and income to another. These groups can be distinguished, according to the title page of H.R. 9030, as "low-income citizens able to work", and "low-income citizens in need who are not available for work." The latter group can be further described, according to the legislation, as unemployable "by reason of disability, age, or family circumstance."

That the elderly, blind and disabled should continue to receive income assistance seems uncontestable. The level of assistance specified in the bill will continue to be controversial, however. Discussion will also attend the Administration's intent of exempting mothers of small children from the work requirement. Table A provides background on this issue.

Current evidence exists that millions of women with small children have already become available for paid jobs. Jacob Mincer pointed out 20 years ago that "not available for work" cannot be applied to most women, who merely have the choice between unpaid work at home and paid work outside the home. One would wish that the authors of this legislation had read the Mincer article, or any of the subsequent research in the area: the word "work" occurs over and over in the bill, although "paid employment" would be the accurate term to use.

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TABLE A

WOMEN IN THE LABOR FORCE, BY MARITAL STATUS, PRESENCE OF OWN CHILDREN, MARCH 1976

WOMEN	Number of Women in Population (in thousands)	Number of Women in Labor Force (in thousands)	Participation Rate
Total 16 years and over	80,834	37,817	46.8
Women with Children under 18	30,568	14,895	48.7
Married, Husband present	25,361	11,693	46.1
Married, Husband absent	1,735	980	56.5
Divorced and widowed	2,819	1,925	68.0
Never married	653	297	45.4
Women with Children under 5, none younger than 3	6,170	2,926	47.4
Women with Children under 3	7,781	2,631	33.8

Source: U.S. Department of Labor, *Bureau of Labor Statistics*, Bulletin 1977, "U.S. Working Women: A Databook," Government Printing Office, Washington, D.C. 1977, Table 19

The most controversial aspect of the bill applies to those families where someone does work a: paid employment. Cash supplementary benefits will be provided when the earnings from such a job fall below the predetermined income for the worker's family. In effect. H.R. 9030 asks us to expand our area of benevolence. We do not begrudge income assistance to the blind, the elderly, the disabled: let us add the working poor to our list of the deserving. Like the blind and disabled, their poverty results from circumstances beyond their control.

But it is just here that the unanswered questions lie. *Why* are the working poor poor?

To the authors of the legislation, the answer was clear. "The majority of poor and near-poor families depend upon their own efforts...Yet many such families are forced to live at or below subsistence levels either because their wages are too low or because they are unable to secure stable employment."

But there is a third possibility. People who hold paid jobs may be poor because they have *families*. Wages that seem adequate for a "self-supporting" job holder will be "too low" for someone with three dependents.

Secretary Marshall's analysis of poverty, quoted above, refers to families with low wages or lacking employment. But families do not earn wages, individual workers do. And families do not get or lose jobs, only individual people do. Implicit in the legislation is a comparison of wages, paid to individuals, with poverty levels defined as income to families.

The analysis, and the policy recommendations that follow from it, rest upon the value judgment and the assumption that any family should be supported by one wage-earner. For the first time, according to H.R. 9030, most American families with an employable member will have an income above the poverty line. If earnings do not provide the calculated sum, supplementary transfer income will. The link is direct between value judgment and policy legislation: one person with a paid job will be entitled to income for the entire family. The implications are many, and most have been overlooked.

First, the fact that identifying the "working poor" requires identifying their families. No single poverty line exists, of course. Some 124 different dollar incomes have been calculated, for families differing in size, composition and residence. It follows that a given amount of earnings will make one family eligible for benefits and another not.

Second, the fact that to guarantee that one earner will entitle a

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family to income above the poverty line reverses the pattern of recent U.S. experience in which two ears provide the typical family with income.

Third, that to provide cash benefits to any one earner, i.e., someone with a paid job, writes into law the definition of work as paid employment that has repeatedly been shown to lack validity.

Poverty and Families

In dealing with this question, we must proceed in this way. Since there is no single "poverty line," our total count of the poor requires that each family's actual income be compared to the poverty level designated for that size and composition of family. How do such incomes compare to actual wages paid to the earners who constitute the "working poor?"

In 1975, the poverty level income for a family with three children and two parents was $6,417. Among the 5.5 million poor families in the country, about one out of five consisted of two parents with three or more children. To what extent is it correct to say that their poverty reflects low wages or lack of employment? How many people earned *wages* amounting to less than this particular sum? How many of them were classified as poor?

In 1975, over 13 million individuals reported earnings less than $6,500, and they included more than four million fulltime workers, employed all year. Most of these people with such low earnings were *not* classified as poor. It is not that wages of $6,500 are "too low," but that one individual earning less than that sum does not provide sufficient income for another adult and three children as well. To speak of poverty income and low wages as more or less synonymous overlooks the essential circumstance that poverty levels refer to families. Wages, earning, jobs — the solution of H.R. 9030 — refer to individuals.

The distribution of earnings, paid to individual workers, differs significantly from the distribution of family income. How much one earns in any given year depends not only on the level of wages, but whether one holds a full or part-time job, whether one works overtime, whether employment is year-round or only seasonal, and whether layoffs or other spells of unemployment occurred during the year. Table C, in fact, reveals that most people with low earnings do not work fulltime, year round. Still, the table shows millions of people working at paid jobs with very low sums of reported earnings, well below the $3,000 figured as poverty for the single man, or $2,700 for the single woman. How did they survive without the cash supplements to wages to be made available by H.R. 9030?

The answer, of course, is that few of them counted their wages as total family income. If they were single, other sources of income existed, but most of them lived in families where other people also earned wages or received other types of income. Note that although the chart shows one out of four *men* earning less than $4,000, only four percent of the *families* headed by men received less than this amount in total income. Of the five million married men in this group of low earners, half were married to women who also earned wages; these exceeded their husbands' in almost half the cases.

This circumstance of the dual-earner family has, unaccountably, been totally overlooked or ignored by the authors of H.R. 9030. The distribution of family incomes, as opposed to individual earnings, reflect wages and employment, but also another vitally important fact. Families may contain one wage-earner or they may contain more than

TABLE B

PERCENTAGE DISTRIBUTION OF FAMILIES, BY INCOME AND SEX OF FAMILY HEAD, 1975

Income Class	Male Family Heads, Married	Female Family Heads
$ 1 - 2,000 or less	1 2 %	8 2 %
2 - 3,999	3 7	18 7
4 - 5,999	6 8	17 3
6 - 7,999	7 6	13 9
8 - 9,999	8 1	11 5
10 - 11,999	9 0	8 2
12 - 14,999	14 2	8 6
15 - 19,999	20.4	7 8
20 - 24,999	12.9	3 7
25 - 49,999	14 5	2.1
50,000 +	1 6	0 2
Total number with earnings	47,318,000	7,482,000

Note Table refers to individuals aged 18 or above

Source U.S. Bureau of The Census *Current Population Reports* Series P-60 No. 105 "Money Income in 1975 of Families and Persons in the United States" Government Printing Office Washington, D.C. 1977 Table 20

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one. In fact, most families with adults of working age contain more than one wage-earner.

The "typical" family in this country does not consist of a husband and father supporting, as the "breadwinner," his homemaker wife and children. The typical wage-earner in this country is married to another wage-earner. Most children who live with both parents know both parents hold jobs; most children who are supported by a single parent live with their mothers. The number of dual-earner families in the country is growing faster than the number of two-parent families. All these circumstances mean that the earnings of one individual count for less and less, these days, in terms of family income.

It is therefore impossible to calculate the extent of poverty by looking at figures for individual earnings. Whether or not people receive "too low" wages or "lack stable employment," their *families'* poverty will depend on two other circumstances. First, the size and composition of the family will determine its poverty level income and, second, the individual's earnings may be supplemented, not by cash

TABLE C

PERCENTAGE DISTRIBUTION OF MEN AND WOMEN, BY EARNINGS FROM EMPLOYMENT, 1975

Earning Class	Men		Women	
	Employed	Employed Full-Time	Employed	Employed Full-Time
$ 1 - 2.000 or less	15 5 %	2 [illegible] %	32 7 %	2 8 %
2 - 3 999	8 8	2 3	17 7	6 8
4 - 5 999	8 2	5 7	15 7	21 4
6 - 7.999	9 2	9 5	13 4	25 1
8 - 9.999	9 8	11 8	8 8	18 3
10 - 11.999	10 4	13 9	5 4	11 8
12 - 14 999	13 7	19 1	4 0	8 8
15 - 19 999	13 5	19 6	1 8	3 9
20 - 24.999	5 3	8 1	0 3	0 7
25 - 49.999	4 6	6 8	0 2	0 4
50.000 +	0 9	1 3	0 0	0 0
Total number with earnings	59 268 000	3[illegible] 26[illegible] 000	42 926 000	[illegible] 452 000

Note Table refers to individuals aged 18 [illegible]

Source [illegible]
Washington [illegible] Table [illegible]

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transfers under a welfare scheme, but by earnings of another family member.

Among the non-poor, dual-earner families represent the norm. They occur at every income level and combine all sorts of wages and salaries. A poverty income for families need not automatically result from the low wages or lack of employment of one adult member.

Yet H.R. 9030 identifies these as "the cause" of poverty. Furthermore, the legislation promises to deliver from poverty every family with one adult working member, by supplementing the *individual* wages with cash benefits to yield a higher income. This flies in the face of recent experience.

Most *families* in the country have escaped poverty by having two adult members holding jobs. The rise in employment among married women has contributed to rising income at all levels. More than 45 percent of the families in the upper fifth of incomes contain two earners, contrasted with only 36 percent 30 years ago. Among poor families, the same thing happened.

Between 1959 and 1975, poverty was cut in half among families headed by men. The number of poor individuals (men, women, and children) in such families fell from 30 million in 1959 to 13.5 million in 1975; the poverty rate from 19 percent to eight percent. Families "headed by men" can contain two parents with paid jobs; by definition, families headed by women cannot.

H.R. 9030 also distinguishes between one and two parent families. But nowhere does it reflect the fact that two parents, these days, typically represent two earners for the family. Most of the poor population, and most of the people receiving welfare benefits under current programs, are women and children. Since women with families by definition lack men, the dual-earner escape from poverty is not available to them or their families. The difference between one- and two-parent families perceived by H.R. 9030 is that in some cases one-parent families may be exempt from the "work" requirement. But this also means that such families continue at the low income levels associated with welfare, rather than partaking of the income supplement designed for the "working poor."

Because their work at home is not paid, the single parents do not become eligible for the cash benefits provided to "workers" in paid jobs. Because they lack an adult partner, such single parent families lack the resources provided by two workers to share the work at home, to seek employment, or hold down paid jobs. Mothers of small children have been declared "unemployable" by the legislation, and their work has been declared nonexistent. "Why," asked a modern critic, "do we say 'welfare mother,' but 'unemployed father?'"

The work a woman does at home cannot earn the right to supplementary payments, like the paid work done outside the home. It is not possible, therefore, to bring the single parent's income as far above the poverty level as that promised to "every family with an employable adult."

Reform and the Social Consensus

Nobody can be *against* providing jobs and income, instead of welfare, to the poor — or at least to the deserving poor. But the analysis of this paper suggests that, beyond this kind of reasoning, H.R. 9030 contains little that reflects a social consensus.

It adds the "working poor" to the list of the deserving without allowing the general public any clear understanding of who these people are or why they are poor.

It adds "the need to care for children" to the list of disabling conditions making one ineligible to earn pay.

It acts to preserve and maintain the single-earner family, despite its rapid disappearance from among poor and non-poor alike.

These three provisions alone prevent the legislation from achieving reform, in the sense of betterment over what presently exists. The social consensus, as expressed in the behavior and experience of most Americans, approves two-earner families and employment by parents of small children. The *deserving* poor, as identified by those for whom Americans readily provide private as well as public transfers, include old people, children, and those who are incapacitated. It has yet to be established that taxes will readily be paid to help all those who claim poverty, not because their incomes are "too low," but because their families are "too large."

The Administration's 1979 Welfare Reform Proposal

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INTRODUCTION

The American welfare system has grown substantially in cost, visibility, and complexity in recent decades. Numerous government agencies are now involved in the overall effort to aid the less fortunate in our society, and federal, state, and local governments share in the financing and administration of various welfare benefits. Thus all levels of government would benefit from improvements in the structure or concept of welfare programs. The public perception that changes are required has been heightened by reports of abuses of welfare and of generous benefits received without toil by some families. The disqualification of some who are in need of benefits and the complaints of others who do receive benefits add another dimension to the ongoing debate over the present welfare system.

Major reform initiatives have been launched over the last decade, but welfare has proved difficult to reform. In an attempt to break the impasse over welfare reform, President Carter's 1979 initiative calls for less extensive restructuring than have prior proposals. Nonetheless the same fundamental questions raised during prior reform efforts keep recurring. To what extent should benefit levels and administration be uniform? Are we fostering a class of long-term poor who will be unable to break out of the welfare syndrome and compete in society? What level of support should be provided for what classes of beneficiaries? How much should be spent on welfare and how should the costs be shared? What work incentives and requirements would ensure success in moving families off welfare? What can be done to improve efficiency and to eliminate fraud and abuse?

This legislative analysis will examine the administration's legislative recommendations for reform of the welfare system and the principal arguments for and against significant features of the administration's initiative.

Background

The term welfare reform is widely applied to almost any change in the welfare system, for example, broadening eligibility for welfare benefits, increasing benefit amounts, changing the sources of financing, revising the method of administration, replacing various welfare programs with new ones, tightening and improving administrative standards to keep people off welfare rolls and to reduce errors and waste, and so on. As a result, the debate over welfare reform covers a wide range of issues, from the pragmatic question of how to achieve reform—by comprehensive change or by gradual adjustment—to the question of who should receive welfare benefits.

The categories of those receiving cash, vouchers, and tax and in-kind benefits under the principal welfare programs in the United States are described in the section, The Current Welfare System. However, some benefits that undoubtedly aid the poor under these and other programs are also available to persons and families who are not in poverty. Policy makers have used a poverty index of the Census Bureau as a criterion in identifying persons who need assistance, but some question the accuracy and application of this index. Administration spokesmen estimate on the basis of the index that 11.8 percent of the U.S. population (nearly 25 million persons) are living in poverty, but the Congressional Budget Office, after allowances for certain in-kind welfare transfers, concludes that welfare benefits have lifted all but about 8.1 percent of these families out of poverty. Whatever the poverty figure, the principal welfare programs in the United States provided benefits to the following numbers in October 1977:[1]

Aid to Families with Dependent Children (AFDC)	10.8 million
Supplemental Security Income (SSI)	4.2 million
Food Stamps	15.9 million
Medicaid (annual figure)	21.3 million
General Assistance	0.8 million
Earned Income Tax Credit (EITC)(families)	6.6 million

These figures do not, however, reflect the total number of welfare beneficiaries, for some receive benefits under two or more of these programs and some receive benefits under numerous other programs that have not been listed. Moreover, a substantial number of the nonpoor obtain various benefits. One staff paper prepared by the Department of Health, Education, and Welfare (HEW) estimates, for example, that 42 percent of the persons eligible for AFDC and 57 percent eligible for SSI are nonpoor.[2] The number of persons receiving benefits under the largest

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and most costly program for the delivery of cash benefits (AFDC) jumped from 3 million in 1960 to 10.6 million in 1971.[3]

The Congressional Research Service, citing some fifty-five welfare programs, concluded that total welfare outlays quadrupled from fiscal 1968 to fiscal 1976 and that even after allowance for inflation, the annual rate of spending for welfare increased by 18 percent a year. These programs accounted for expenditures of about $70 billion in fiscal 1977 or almost 4 percent of gross national product. Almost three out of four welfare dollars were from the federal government.[4] Part of the increase in spending was the result of the liberalization of old welfare programs and the establishment of new ones as federal social policy sought to eliminate or alleviate poverty and to raise the standard of living for millions of Americans. Medicaid, enacted in 1965, by the early 1970s required the largest state and local expenditures of any welfare program and by 1974 had surpassed in cost all cash assistance programs combined. The enormous increase in number of welfare recipients and cost of benefits has been attributed in part to the breakup of poor families, which thrust dependent members onto welfare, and to the transfer of benefits to large numbers of female-headed families that had long been eligible for AFDC benefits but were not receiving them. Heightened consciousness of the availability of these benefits and less concern for the stigma sometimes attached to the receipt of welfare benefits also contributed to the increase in the welfare caseload. The availability of free health services under Medicaid to those who qualified for AFDC may have stimulated many applications for AFDC benefits.[5]

Some observers argue that the continued high level of poverty—hovering around 12 percent since 1968, according to Census Bureau data—shows that the massive expenditures on welfare beginning with the Johnson administration's War on Poverty have not succeeded in eradicating poverty, and they believe that much more needs to be done toward this end. Others contend that the Census Bureau figures overstate poverty, that considerably fewer families actually fall into the poverty class, and that relatively few can be said to be in need when all government assistance is considered (see the section on Adequacy of Benefits).

Although most people agree on the need for reform to deal with the so-called welfare mess, they hold widely divergent views on what should be done. One concern is that the AFDC program, which was established to aid the temporarily poor with the expectation that social insurance programs would ultimately take care of long-term needs, is burdened with many who are chronically poor. Some critics claim that the longer a family remains on AFDC the less likely it is to go off welfare. Hence there is great interest in restructuring welfare to move a greater percentage of welfare recipients into productive work. Another difficulty is that so many programs exist and interact and overlap so extensively that it is very difficult to form a coherent picture of the whole system. Efforts to reform welfare are also hindered, as one congressman claimed, by the division of responsibility among eleven House committees, ten Senate committees, and nine executive agencies all competing for a piece of the action.[6]

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The Current Welfare System

The principal needs-based programs delivering welfare benefits generally include the following

Aid to Families with Dependent Children. AFDC, the most controversial welfare program, is also the most costly program delivering benefits in cash. Its predecessor, Aid to Dependent Children (ADC), was established by the Social Security Act of 1935 as a grant program providing cash assistance to states for needy widowed or divorced mothers for the care of their children at home. This program now provides benefits to children deprived of parental support or care and their caretaker relatives if the father is absent from the home (84.7 percent), incapacitated (5.9 percent), dead (2.6 percent), or unemployed (5.1 percent), or if the mother is incapacitated, or absent or dead (1.6 percent). The statute requires able-bodied recipients (including mothers whose youngest child is at least six years old) to register for work or training under the Work Incentive Program (WIN).

The states establish their own standards of basic needs and benefit levels. Maximum benefits for a mother with three children vary from about $120 per month in Mississippi to $563 per month in Suffolk County, New York. States also decide if they will grant AFDC benefits to families of unemployed fathers or of underemployed fathers (twenty-four do not) and emergency assistance (thirty-one do not), and AFDC aid to students aged eighteen to twenty-one (ten do not). Eleven states require their counties to help finance AFDC benefits. Thirty-two delegate administration of the program to the county level. Congress has required the states to disregard work expenses in computing the income available to an employed head of an AFDC family and this affects the level of AFDC benefits. That person is also entitled to a work incentive disregard (the first $30 of monthly earnings plus one-third of all remaining earnings) that may enable the family to remain on the AFDC rolls even though its earnings exceed the state's needs standard. In addition, AFDC families are automatically eligible for Medicaid benefits.

As of February 1977 almost one-fourth of all AFDC recipients lived in six cities: New York, Chicago, Los Angeles, Philadelphia, Houston, and Detroit. Almost one-fourth lived in two states, California and New York, where benefit payments accounted for one-third of all AFDC payments in the United States. AFDC payments in fiscal 1977 were shared as follows: 54 percent by the federal government; 37 percent by state governments, and 9 percent by local governments. The proportion of children under eighteen on AFDC in the United States climbed from 5.2 percent in 1967 to 12 percent in 1975 and stood at 11.9 percent in 1977. In February 1974 one out of three children was on AFDC in St. Louis, Baltimore, and Suffolk County, Massachusetts (which includes Boston), one out of four in New York City and Essex County, New Jersey (which includes Newark); and one out of five in Chicago and Detroit.

Supplemental Security Income. SSI is a needs-based program directly administered by the federal government that in 1974 replaced three federally assisted state programs of financial assistance for the aged, the blind, and those who are permanently and totally disabled. SSI provides nationally uniform federal benefits, nationally uniform eligibility requirements (income and assets), incentives for state supplements, incentives to permit federal administration of state supplements, and fiscal relief for the states. SSI benefits are supplemented by about half of the states, some of which have elected to administer the payments and thus have duplicated some existing administrative structures. There is no work registration requirement for this program. Maximum monthly benefits in July 1977 were $266.70 for a couple and $177.80 for an individual. Benefits are adjusted for increases in cost of living.

Over half of all SSI recipients—and 70 percent of aged recipients—also receive social security benefits. SSI interacts with AFDC in that nondisabled dependents of SSI recipients cannot be covered by SSI but may be covered by AFDC.

Food Stamps. The food stamp program was established to improve the diets of low-income households and to expand the market for domestically produced food. Under the 1964 act as amended, working and nonworking families having low incomes receive coupons redeemable for most food items and certain other necessities at certified stores. Payments under AFDC and other income transfer programs are included as income in determining a household's eligibility for food coupons, but taxes, union dues, child care, medical and other allowed expenses are deductible. Applicants must meet an assets test and register for work as required. Income eligibility levels are adjusted semi-annually to reflect changes in food prices. About 50 percent of food stamp recipients receive assistance under AFDC or SSI and therefore automatically qualify for food stamps. If a family receiving AFDC benefits and food stamps increases its income, both its AFDC benefits and its allotment of food stamps will be reduced. An estimated 16.3 million persons received food stamps on March 15, 1978. State and local governments administer this program for the Department of Agriculture, the total cost of which in fiscal 1979 was $5.62 billion. The federal government pays all benefit costs and 50 percent of the administrative costs of state and local governments.

Medicaid. This program is the most costly and the fastest growing of the public assistance programs. It was established in 1965 as a jointly funded federal-state program under which states establish benefit levels. The federal share of payments to providers of medical care varies from 50 percent to 83 percent depending on state per capita income. AFDC and Supplemental Security Income (SSI) recipients in participating states are automatically eligible for Medicaid if they meet state income and resource standards. There is no separate work registration requirement. Thirty-two states also receive federal support to cover families that are "medically needy" (that is, those who are eligible for AFDC or SSI, for example, but do not receive monetary aid under AFDC or SSI and whose income, minus medical expenses, is less than 133 percent of the needs standard for cash assistance in the particular state). During fiscal 1977 vendor payments were made to medical-care providers on behalf of 23 8 million persons under this program including, by one account, more than 10 million children under the age of twenty-one 3 7 million over age sixty-five whose Medicare benefits did not fully cover expenses, 2 8 million permanently and totally disabled, and so forth. Federal payments for Medicaid are expected to exceed $15 billion in fiscal 1982.

General Assistance. Although general assistance varies from state to state and from locality to locality, state and local governments may provide cash and in-kind benefits to low-income persons who are not eligible for federally supported assistance programs In fiscal 1977 $1.3 billion in assistance was made available to 900,000 recipients. Not all states provide such assistance, however, and in those that do the regulations generally tend to be stricter than under AFDC

Earned Income Tax Credit. The earned income tax credit is a refundable tax credit available to individuals and couples maintaining a household that was the principal residence of a child or foster child under age nineteen, or over nineteen if the child is disabled or in school. The credit is equal to 10 percent of earned income for a credit of up to $400 In 1978 the program provided an average benefit of $202 to about 5 6 million families.

Other. A large number of federal programs provide welfare benefits, income transfers, or other types of assistance to low-income families or individuals Even the system of benefit payments under the contributory social security insurance program allows low-income beneficiaries to receive approximately twice as much in return for contributions paid in as do those in higher income brackets. Any list of welfare or income transfer programs that affect the poverty status of recipients will be quite long if the researcher is persistent and perceptive " Many incidental benefits are available notwithstanding benefits received from other sources. Some welfare families that have been industrious in filing and pursuing claims under various programs have obtained benefits that in the aggregate produce a standard of living above that enjoyed by some working families above the poverty level These instances, along with cases of families that are barely subsisting on welfare, add weight to the call for reform of the welfare system '

Prior Reform Initiatives

Numerous proposals for remolding the welfare system have been advanced over the last twenty years Professor Milton Friedman's advocacy of the negative income tax in 1962 is generally credited with producing a new climate of opinion about welfare reform " In August 1969 President Nixon proposed as a substitute for AFDC the Family Assistance Plan (FAP), a federally funded and federally administered plan calling for a two-track system of federal payments and benefits that was to provide

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an income floor to families of the unemployed and, for the first time, to families of the working poor. FAP imposed a work requirement for family heads. Work incentive provisions would allow the family to keep the first $60 earned each month and 50 percent of that earned in excess of $60 up to a limit based on family size. By making two-parent families eligible, the plan attempted to lessen the incentive for desertion, thought by many to be inherent in the existing welfare program. The FAP proposal passed the House in 1970 and 1971 but failed to win acceptance in the Senate.[11] Sen. George S. McGovern (D-S.Dak.) advanced a "universal demogrant" proposal during his 1972 presidential campaign to provide a family of four with $4,000 regardless of the family's income or assets.[12] In 1974 a subcommittee of the Joint Economic Committee chaired by Rep. Martha W. Griffiths (D-Mich., 1955–1975) developed a plan for combining cash allowances and tax rebates that drew on the concept of negative income tax and that would have replaced AFDC, food stamps, and SSI.

During his 1976 campaign for the presidency Jimmy Carter called the welfare system "an insult to those who pay the bill and those who honestly need help." The welfare reform plan unveiled by President Carter in the 95th Congress departed from his earlier determination that the new system would have "no higher initial cost than the present systems" and called for employment and training programs ($8.8 billion), cash assistance ($20.2 billion), earned income tax credits ($1.5 billion), and emergency assistance block grants ($0.6 billion). These proposed programs were to supplant AFDC, SSI, food stamps, and certain other programs at an estimated cost of $31.1 billion. An upper tier or benefit level was to provide benefits for those not expected to work and a lower tier was to pay a lower benefit to families expected to work. The plan called for the creation of up to 1.4 million jobs and training slots, about 43 percent of which would be taken by AFDC recipients representing about 28 percent of the AFDC case load. This and other bills for the reform of welfare failed to be enacted in the 95th Congress.[13]

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The Administration's 1979 Proposal for Reform

The administration's 1979 welfare reform proposal would be implemented through the enactment of two bills: The Social Welfare Reform Amendments of 1979 (H.R. 4321 and S. 1290) and the Work and Training Opportunities Act of 1979 (H.R. 4425 and S. 1312).[14]

Social Welfare Reform Amendments

In broad terms, the administration would amend existing law to establish a national minimum level of support (in the form of AFDC cash and food stamps) for welfare families at not less than 65 percent of the Census Bureau poverty threshold, or $4,654 for a family of four. This proposal would serve to assist welfare families in the thirteen states where the minimum level of support in AFDC and food stamp benefits combined is less than 65 percent of the poverty standard. The current program for welfare assistance to two-parent families with an unemployed father (AFDC-UF) in twenty-six states and the District of Columbia would be mandated for all jurisdictions in the form of an AFDC-unemployed parent program (AFDC-UP), which would provide assistance when the principal earner of a family (whether father or mother) is unemployed. The current rule of ineligibility—if the parent has worked 100 or more hours in the previous month or has not been employed in six of the thirteen calendar quarters in the period ending the year before the application for assistance—would be dropped. A gross earnings limit would be substituted for the prior AFDC-UF rules so that a principal breadwinner earning less than a figure set by regulations (expected to be $500 a month or $6,000 a year initially) would qualify as unemployed. HEW selected this earnings cut off level because it approximates the wages a full time worker would earn if paid at the minimum wage. The principal breadwinner would no longer have to be unemployed for thirty days for the family to be eligible for assistance. Although states could establish different benefit levels for AFDC and AFDC-UP programs, both programs would have to meet the national minimum in benefits. The AFDC-UP family would lose eligibility in two months unless a job or training opportunity was not available for the principal breadwinner.

The Earned Income Tax Credit (EITC) would be revised to increase the tax credit rate from 10 percent to 12 percent and to set a new maximum of $600. However, the EITC would not be available to families of wage earners holding public service employment funded in whole or in part by CETA. The administration

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believes that the refundable credit, averaging about $310 for earners taking private sector jobs, will encourage those holding public service jobs to find jobs in the private sector. The current rule that precludes eligibility for EITC if AFDC benefits exceed earned income would be dropped, and thus more households would become eligible for the EITC. In the computation of cash payments under AFDC, the amount of the refundable EITC would, however, be considered income to the welfare family.

The current 50-50 matching fund program for emergency assistance by states to low-income families in the event of civil disorders, natural disasters, unusually large fuel bills, and the like would be replaced by a $200 million block grant program that would, it is hoped, provide federal funding for emergency assistance in all jurisdictions and not just the present twenty. Food stamp benefits would be cashed out for elderly, blind, and disabled persons who receive SSI benefits and who are not part of a larger household.

A series of changes would reduce state-to-state disparities in treatment of welfare applicants and recipients as well as errors and waste in the welfare program. A new low-benefit income disregard would be established to improve the lot of welfare recipients in low-benefit states, that is, certain income would not be counted (it would be disregarded) in determining the amount of benefits for the family. In 1980 and 1981 this disregard would be available to families in states whose benefit level does not equal 65 percent of the poverty threshold.[17] In 1982 and subsequent years the low-benefit disregard would apply to families in states whose benefit level does not equal 75 percent of the poverty threshold rather than 65 percent. Definitions of income and assets for the AFDC program would be stated in federal law and thereby would reduce variations in treatment from state to state. These definitions would follow those employed in the food stamp program in part in order to improve coordination between these two programs. A standardized work-expense deduction of 20 percent of earnings would (as in the food stamp program) replace itemized work-expense deductions, which vary among states. Actual child care costs up to a maximum of $160 per child per month (which does not match the deduction in the food stamp program) would be deductible by one-parent families. Stepparent income, which would be treated uniformly throughout the country, would be considered, after allowance for certain set asides to the stepparent, in arriving at benefits payable to a welfare child.

The current work-incentive earnings disregard of $30 and one-third of the welfare family's remaining gross monthly income would be replaced with an earnings disregard of $70 and one third of the remaining income, net of the standardized work deduction and the child care allowance. Contrary to present practice the work incentive earnings disregard would be applied both during initial eligibility screening and in the computation of benefits so as to avoid the anomaly of working families drawing AFDC payments (having increased their earnings after initial eligibility was established) while families of equal income and circumstances fail the initial screen.[18] All states would base their benefit level determinations on retrospective monthly income accounting (except for the initial welfare application)

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rather than on prospective estimates of family finances. This method is expected to lower the rate of errors and overpayments and to remove ineligible families from the welfare rolls more quickly.

Other changes include pro rata sharing of the costs of shelter and utilities when an AFDC child lives with non-needy relatives, extension of benefits to the pregnant woman who would be eligible for benefits when the child is born (only twenty-four states provide such benefits now), and postponement of benefits for those who, in order to qualify for welfare, have disposed of valuable resources at less than full value within two years of application. The secretary of HEW would be given new authority to establish allowable costs of state administration and uniform rules for cost allocation. Increased financial incentives would be provided to encourage states to establish automated data processing systems for welfare operations and to implement improved and innovative administrative techniques. Prompt determination of eligibility and prompt replacement of lost or stolen checks would be required. Welfare applicants and recipients would be guaranteed certain rights but they would be required to report promptly information affecting eligibility and amount of benefit payments. Retrospective monthly accounting would be instituted for SSI recipients as well and prompt replacement of their lost and stolen SSI checks would be required.

Immigrants generally would be denied admittance to the United States unless they provided assurances that they would not be welfare subjects within five years and furnished an agreement by a sponsor capable of providing support that he would in fact provide financial support for five years to prevent the immigrant from becoming a charge on welfare programs. The agreement would be enforceable in a suit by either the immigrant or the attorney general, and the attorney general could also recover a money judgment against the sponsor for public assistance provided to the immigrant.

The child support provisions of the statute would be strengthened. The statute would be amended to drop the arrangement under which the head of the welfare family could delay termination of welfare payments because of his or her failure to register or accept training or employment while he or she undergoes counseling. States could take appropriate action in such cases within thirty days rather than the present sixty days. Training or employment could not be refused for lack of a particular kind of child care, if appropriate child care services are available. Other provisions would facilitate coordination with the WIN and CETA programs, and states would have to establish a separate administrative unit to provide WIN-related services to the principal breadwinners of welfare families and to families eligible for AFDC but not drawing cash payments.

THE WORK AND TRAINING OPPORTUNITIES ACT

This proposal would amend the Comprehensive Employment and Training Act by making minor changes in existing law and by adding a new part E to title II of the statute, under which federal funds would pay for 90 percent of state job-search assistance programs, including current WIN activities. Eligible adults in families with AFDC children would participate in an eight-week state job-search program for placement in unsubsidized jobs in either the private or public sector. Principal earners of families who are unable to find jobs after eight weeks and who have not refused a good faith job for unsubsidized employment "without cause" would enter a federally subsidized work and training opportunities program carried out by CETA prime sponsors and would be paid while undergoing training or while performing work in subsidized work slots. Attempts to place these persons in unsubsidized employment would continue. Publicly funded or subsidized employment would terminate at the end of seventy-eight weeks (a year-and-a-half) and the participants would reenter the job search assistance program for eight weeks of active job search before they would be eligible again for a federally subsidized job or training position. Counseling, testing, child care, health, rehabilitation, remedial, and other supportive services would be offered to enable those participating to accept or continue in unsubsidized employment.

Refusal of a good faith job offer would not be "without cause" if the job pays less than the federal minimum wage, the state or local minimum wage, or the prevailing wage rate for persons employed in equal work by the same employer in the same establishment. Under standards set in regulations refusal of a good faith job offer would also be excused for an only adult in a family with one or more children under seven years of age if the job makes it impractical to obtain suitable child care, or such refusal would be excused for an only adult in a family with children aged seven through thirteen if the job makes it impractical for the adult to be home during hours when the child or children are at home without suitable care. An individual would not have to accept a job of less than four weeks' duration or one that is made available because of a strike, lockout, or other labor dispute. Of the federal funds available to carry out the program of transitional employment opportunities for the economically disadvantaged, 62.5 percent would be allocated to public service employment for principal earners in families with children eligible for AFDC and, in certain cases, recipients of general welfare assistance funded by the states. Estimated work and training placements will be discussed in the section on Employment for Poor Families.

Issues and Arguments

Comprehensive versus Incremental Reform

Proponents of comprehensive welfare reform, arguing that the present welfare system has failed for a variety of reasons, call for sweeping legislative action. First they contend that many poor fall between the boundaries of the various programs and so do not receive assistance. Carol Tucker Foreman, assistant secretary of agriculture for food and consumer affairs, cites the example of intact families below the poverty level that are ineligible for AFDC benefits in nearly half of the states.[17] Advocates of reform characterize the current welfare program as antifamily with built-in incentives for the breakup of families and for bastardy. Some maintain that whereas the welfare system should eliminate poverty, more than 11 percent of the population remains poor and too little has been done to lift these people above the poverty level. Work incentives, it is said, are lacking because welfare benefits for the family head who obtains employment are reduced as income rises at a rate that leaves little net gain from the work effort.[18] Some welfare benefits, it is argued, are lost entirely if the head of the household works more than a certain number of days, and Medicaid eligibility—a valuable benefit for low-income families—is lost entirely if income exceeds a certain level. Thus strong incentives in the present system allegedly work against the goal of eliminating poverty. Further, it is claimed that families headed by a black, a female, or an unmarried person with children in the household comprise an unusually high percentage of the persistently poor. For example, one study showed that black persons accounted for 41.3 percent of poor individuals in 1975 but 77 percent of the persistently poor.[19] Given the low earning potential of so many of the persistently poor and the disincentives to work said to be built into current welfare programs, it is argued that these beneficiaries generally cannot find jobs that will pay more than the welfare benefits they can obtain without work

Some advocates of comprehensive reform contend that the level of support now provided by welfare is frequently inadequate for the needs of the persons involved. People in similar circumstances, it is argued, should be treated similarly but the current system provides vastly different levels of benefit in different states. Another contention is that although benefits should be targeted for those who are most in need, a substantial part of welfare-type benefits leak to the nonpoor. Congressional Budget Office computations are cited to show that even after various transfer payments and in-kind benefits are counted, a significant percentage of persons still do not have enough resources to bring them above the poverty level.[20] Some claim that the maximum in AFDC and food stamp benefits for a family of four persons yields enough benefits to put the family's income above the poverty level in only five states.[21] Administrative overlap and inefficiency, which are said to characterize the present system, allegedly prevent taxpayers from getting full value for their money, and force those who need aid to negotiate a bewildering array of programs when seeking help. It is further argued that administrative inefficiency in the current welfare system produces such a high incidence of error and abuse that no one planning a coherent welfare system would have chosen the model we now have.

Advocates of major reform believe that a welfare system should combine administrative functions in a single unit when possible. Structural simplicity is thought to be important because it would enable both administrators and recipients of benefits to understand the system. In this view all significant government welfare programs should be merged in a new, comprehensive, one-step welfare system.[22] Some advocates of comprehensive reform propose that welfare be federalized to streamline delivery of benefits, relieve state and local governments of financial burdens, and achieve economies of administration that are not possible with the present loose and varied system.

On the other hand, substantial numbers support the view that fundamental reforms in the structure of the welfare system are not needed. Some who would rather make incremental changes prefer that the states clean up the system by means of legislative and administrative changes that would reduce cheating, fraud, and administrative costs. In this view states should be free to experiment with various work requirements and benefit structures and to develop programs that suit their citizens and the needs of their low-income families.

Others who favor incremental reform rather than comprehensive reform contend that welfare is already more reformed than most people realize and therefore major reform is not needed.[23] They cite Richard Nathan, former assistant director for human relations programs at the Bureau of the Budget, who argues that rapid growth of the food stamp program, for example, has narrowed significantly the interstate differences in overall benefit levels.[24] Still other critics of comprehensive reform say that data on the poverty threshold used to support the need for major changes in welfare fail to include the in-kind transfers already being made to families. For example, one study cited shows that, if in-kind transfers are factored into poverty level data, Census Bureau figures understate the incomes of those in the lowest fifth of the population in earnings so that the average poor family in 1973 allegedly had an income 30 percent above the poverty line.[25] Another study, it is argued, showed that counting in-kind transfers, adjusting for the underreporting of income, and allocating benefits by program and household size indicated only 3 percent of Americans were poor in 1975.[26] Those who oppose federalization of welfare argue that state and local delivery systems are in place and delivering. A massive shift to federal administration would create chaos, displace state and local workers, and delay replacement of lost checks and the provision of other services. A federalized system, in their view, would be less responsive and sensitive and would

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ignore real differences in living costs from state to state

Defending their approach on pragmatic grounds, advocates of incremental reform argue that comprehensive reform proposals setting benefit levels high enough so that current beneficiaries do not lose under the new system will be considered too expensive by many policy makers, particularly in view of the current budget crunch. On the other hand, low federal benefit levels will not be satisfactory to most groups favoring comprehensive reform. High benefit reduction rates are claimed to be a serious disincentive to moving welfare recipients into productive employment and a strong reason for reform. However, lowering benefit reduction rates to encourage job seeking leads to the extension of cash benefits to those earning sums above the poverty level, which makes the new system more expensive than before and thus unacceptable to many. Advocates of the incremental approach insist that cashing out in-kind benefits (see the section on In-Kind Benefits) would demonstrate to the public just how much welfare is now costing and thus would thwart reform efforts. The incremental approach, its advocates argue, is much more likely to succeed for it recognizes that restructuring the welfare system is not a panacea for all welfare-related problems. The reduction and elimination of poverty, in this view, is dependent on economic growth and development, opportunities for meaningful, productive, self-supporting work, the elimination of racial discrimination, and so forth.[27] Proposals for massive welfare restructure should not, it is argued, preempt the priority that must be given to these other initiatives, without which the welfare problem cannot be solved

Uniform Minimum Benefit Level

Some advocates of a uniform benefit level contend that all welfare benefits should be substantially uniform throughout the nation. Why should a child be worth so much more in New York City than in one of the southern states, they ask? Variations in state benefit levels clearly exceed differences that can be justified by variations in the cost of living from state to state, they add. Provision of adequate cash income through comprehensive reform by cashing out in-kind assistance, they claim, would increase uniformity and make unnecessary the elaborate secondary markets in which the poor are required to obtain goods and services. This would avoid segregation of the poor and the stigma that they suffer because of the current mixed bag of benefits. They also claim that allowing states to set eligibility levels means that some benefit levels will be so low that some needy families will be left out. Incentives to raise benefit levels, it is asserted, have not reduced the disparities in benefit levels substantially.

The administration advocates the federal definition of income, assets, and disregards, and a uniform minimum that may vary only within the limits permitted by the definitions and disregards for the purpose of providing substantially greater uniformity than at present. HEW defends standardization of minimum benefit levels on the basis of equity.[28] Uniform definitions, it is said, will also cut down headlines about families with good incomes receiving welfare benefits. Uniform

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standards are said to be less difficult to administer and easier to understand. The inability of some states to finance larger benefit allowances than are paid now can be corrected, it is argued, only by a federal floor for benefits. While recognizing that living costs differ in various areas of the country, proponents of nationally uniform minimum benefits insist that cost-of-living differences simply do not justify the current disparity in payments from state to state. Benefits, they claim, vary considerably more than necessary for cost-of-living differences, as shown by table 1. John T. Dempsey, director of the Michigan Department of Social Services, noted that variations of $100 a month in welfare benefits could be found between adjacent states and that the greater benefit could be had by crossing a road or river separating the states.[29] Those who favor a relatively uniform minimum benefit level rather than overall uniformity or a completely federalized benefit system contend that the administration's approach is politically feasible whereas the other approaches are unattainable. As to variations in living costs, it is noted that the Heineman Commission found that each region of the country has one or more high cost areas; the administration's proposal takes this into account by permitting benefits to vary for up to six levels of living costs within a state at the option of the state.[30] However, varying the minimum among the states, it is argued, is neither politically feasible nor practicable, for there are no reliable national measurements of differences in the cost of living.[31]

Some critics of the current wide variations in state benefit levels agree with President Nixon's assessment that differences in the amount of welfare payments among states have lured thousands of families, unprepared for both city life and city jobs, into already overcrowded inner cities. It is argued that, when the Supreme Court on constitutional grounds voided the one-year waiting requirement for welfare benefits in certain states,[32] high benefit states were unable to protect themselves from migratory welfare families and greater uniformity of welfare benefits from state to state became a necessity. One group has claimed that a major cause of the urban crisis is that between 1959 and 1968 southern states shifted one-tenth of the nation's welfare load to urban communities.[33] Advocates of a national minimum benefit level argue that if this standard is not too low it could help reduce the incentive for the poor to migrate to overcrowded city slums.

Those who oppose a national standard for a minimum level of benefits contend that the primary reasons for variations in welfare benefits among states are differences in cost of living, and the equally important relationship between the style of living and the cost of living. Therefore, it is argued, federalizing the benefit level would be moving exactly in the wrong direction because only the states can assess their regional costs and thereby determine benefit levels appropriate to the style of living of their citizens.[34] No one, it is said, knows enough about the causes of and remedies for dependency to warrant moving toward a uniform program. Opponents of the proposed national standard argue that a standard high enough for New York City would be unsuitable in the rural South and a benefit level high enough for the South would be meaningless in New York City.[35] Other such differences, they note, can be seen in census data showing that the median income of a family in Maryland

TABLE I
CURRENT MAXIMUM BENEFIT LEVELS FOR A FAMILY OF FOUR (1979)
(Poverty level, family of four = $7,160)

State	*AFDC*	*Food Stamps*	*Total*	*Has AFDC-UF**
1. Hawaii	6,552	1,332	7,884	*
2. Vermont	5,724	816	6,540	*
3. New York	5,712	816	6,528	*
4. Michigan	5,640	840	6,480	*
5. Wisconsin	5,496	888	6,384	*
6. Washington	5,268	948	6,216	*
7. Oregon	5,124	996	6,120	*
8. Minnesota	5,088	1,008	6,096	*
9. Connecticut	5,100	996	6,096	*
10. California	5,076	1,008	6,084	*
11. Massachusetts	4,752	1,104	5,856	*
12. Iowa	4,740	1,104	5,844	*
13. Alaska	5,400	1,896	7,296	
14. New Jersey	4,488	1,188	5,676	*
15. Utah	4,488	1,188	5,676	*
16. North Dakota	4,440	1,200	5,640	
17. Nebraska	4,440	1,200	5,640	*
18. Idaho	4,392	1,212	5,604	
19. Pennsylvania	4,320	1,236	5,556	*
20. Rhode Island	4,308	1,236	5,544	*
21. New Hampshire	4,152	1,284	5,436	
22. South Dakota	4,080	1,308	5,388	
23. Illinois	3,996	1,332	5,328	*
24. Montana	3,972	1,344	5,316	*
25. Maine	3,768	1,404	5,172	
26. Dist. of Columbia	3,768	1,404	5,172	*
27. Oklahoma	3,708	1,416	5,124	
28. Colorado	3,684	1,428	5,112	*
29. Kansas	3,672	1,428	5,100	*
30. Wyoming	3,660	1,428	5,088	
31. Ohio	3,492	1,488	4,980	*
32. Delaware	3,444	1,500	4,944	*
33. Virginia	3,408	1,512	4,920	
34. Nevada	3,312	1,536	4,848	
35. Indiana	3,300	1,536	4,836	
36. Maryland	3,204	1,572	4,776	
37. Missouri	3,072	1,608	4,680	*
38. West Virginia	2,988	1,632	4,620	*
39. Kentucky	2,820	1,680	4,500	

TABLE I (continued)

State	AFDC	Food Stamps	Total	Has AFDC-UF*
40. New Mexico	2,748	1,704	4,452	
41. Arizona	2,544	1,764	4,308	
42. North Carolina	2,400	1,812	4,212	
43. Florida	2,352	1,824	4,176	
44. Arkansas	2,256	1,860	4,116	
45. Louisiana	2,064	1,908	3,972	
46. Alabama	1,776	2,004	3,780	
47. Georgia	1,776	2,004	3,780	
48. Tennessee	1,776	2,004	3,780	
49. Texas	1,680	2,028	3,708	
50. South Carolina	1,488	2,088	3,576	
51. Mississippi	1,440	2,100	3,540	

SOURCE: U.S. Department of Health, Education, and Welfare, *President Carter's Proposal for Welfare Reform*, May 23, 1979 (revised June 6, 1979), p. 24, Table 1

is almost double that of a family in Mississippi.[16] Setting a national standard, it is claimed, would lead to constant pressuring of the president and the national legislature to raise the minimum to one appropriate for states with the highest costs of living, for welfare activists allegedly influence the president and the Congress more readily than they do the governors and state legislatures who are close to the people and know their tax burdens and needs best. In any event, food stamps help to level off differences in AFDC benefit levels. The issue, it is asserted, is not the dollar worth of a child but what it costs to feed, clothe, and house the child in a given area relative to style of living in the community. It is argued that migration to the inner cities was not due to higher welfare benefit levels but rather to the attraction of better wages, schools, housing, and social services.[17] A Rand Corporation study concluded that evidence fails to demonstrate that variations in benefit levels have promoted migration.[18]

The administration's proposal of a standard minimum benefit level, and mandated coverage for unemployed two-parent families and single pregnant women represents a giant step toward greater federalization of the welfare system, according to some critics, and the installation of a guaranteed annual income that will only perpetuate the welfare syndrome.[19] These critics also claim that negative income tax experiments show that a guaranteed income results in less work by family members (see the section below on Employment for Poor Families). Sen. Russell B. Long (D-La.), one of the six cosponsors of the block grant alternative,

S. 1382, argues that we need to reverse the trend toward complete federalization of welfare and let the states design and implement their own programs tailored to their own needs, a view shared by former U.S. Commissioner of Welfare Robert B. Carlson.[49] Some advocates of welfare reform who prefer federalization of the welfare program oppose the minimum standard benefit because they fear such a floor may freeze benefits at low levels and thus block future increases.

Adequacy of Benefits

A significant issue in the continuing welfare debate is the adequacy of benefits paid to those receiving assistance. The administration claims that under its proposed legislation about 1.5 million families (44 percent of the current AFDC case load) [illegible] higher incomes because of higher AFDC payments, work and training initiatives, and the expansion of EITC. (The adequacy of the jobs component of the administration's proposal will be treated in the section on Employment for Poor Families, and the adequacy of coverage in terms of the categories of persons who will and will not receive assistance is treated in the next section.) The administration has chosen to highlight the issue of the adequacy of existing benefits by tabulating, state by state, current benefit levels to show how little a combination of AFDC and food stamp benefits will provide in some states (see table 1).

The principal thrust of the administration's initiative for increased welfare benefits is the universal minimum benefit calculated at 65 percent of the Census Bureau poverty threshold, or $4,654 for a family of four at the time the administration submitted its proposal. This change, it is claimed, would increase benefits for those most in need and would raise the average payment for 700,000 families in the thirteen states paying the least in benefits—as shown by table 1—at a cost of $374 million. Initially the low-benefit disregard would raise aggregate income for families in the thirteen states paying the lowest benefits (see table 1) and by 1982 for families in all states paying less than 75 percent of the Census Bureau poverty threshold. Table 1 indicates that families in as many as thirty states could be included. Other programmatic changes would increase benefits for particular categories of beneficiaries; for example, working families would become eligible to the breakeven income (discussed in the section on Employment for Poor Families) and would receive an estimated $149 million. This change would benefit families whose incomes prevent them from qualifying for AFDC payments because they cannot now deduct the work-incentive earnings disregard. Mandating AFDC-UP coverage in all jurisdictions, modifying the unemployment work-rule test, eliminating the thirty-day waiting period, and other eligibility changes would benefit families with an unemployed parent in all jurisdictions, but particularly those in the twenty-four states and the territories that do not now provide AFDC-UP coverage.

The administration states that increased benefits resulting from these changes would amount to $205 million. Expansion of the EITC would cost $800 million and would benefit the working poor as well as some AFDC families. Cashing out food stamps for SSI recipients who do not live with larger families would cost $403 million and would assist about 1.3 million SSI recipients, particularly some 730,000 eligible for food stamps but not now participating in the food stamp program. The net change in Medicaid and food stamp expenditures due to expansion of AFDC may cost approximately $19 million. Greater eligibility for AFDC benefits will mean that more families can qualify for free medical care and services under Medicaid and that some families may remain eligible for Medicaid at higher incomes. A block grant program would make emergency assistance available in all jurisdictions that elect to participate. In 1978 approximately 400,000 families in twenty states received emergency assistance funded under the existing 50-50 federal-state matching fund arrangement. Total expenditures for this assistance would be increased from $77 million to a maximum of $200 million. The increase in benefits to the average welfare family is not estimated, for benefit adjustments are targeted and are not improved across the board.

The administration defends its package of benefit changes on the ground that it targets assistance to those most in need at an acceptable cost. Some critics believe, however, that the proposal costs too much; others contend that it would provide too little in benefits. The latter contend that the administration proposes little change in benefit levels for the most part and that the poverty line budget is one that, by definition, is an emergency measure and could not sustain a family in good nutrition and health for more than a period of several months. (See note 45 for the method employed in calculating the poverty line budget.) The poverty threshold, it is argued, amounted to 54 percent of the median income in 1959 but only 40 percent in 1975, which demonstrates that the poor are getting poorer in relation to the rest of the population. These critics argue that welfare families should not be expected to live at 65 percent of the poverty threshold[46] and that they should receive benefits at least equal to the poverty threshold. Some argue that the poverty threshold for a family of four should be set at one-half of the median family income (which was $16,009 in 1977) or that it should be tied to an absolute standard such as the Bureau of Labor Statistics' lower family budget (which was set at $11,546 for autumn 1978). Critics cite HEW figures to show that even if the Census Bureau poverty threshold is accepted as a rough measure of adequacy, welfare benefits now fall far short of the mark. In no state does the combined value of food stamps and the basic cash payment bring a family having no income out of poverty. Twenty-seven states are said to have a payment standard or a maximum benefit less than the standards of need determined by those states.[47]

Sen. Henry Bellmon (R-Okla.) has expressed concern about the administration's continuing reference to Census Bureau estimates that 25 million Americans live below the poverty level. He charges the poverty problem has been exaggerated owing to a greatly inflated poverty count stemming from failure to count in-kind benefits such as food stamps and medical benefits.[48] Using the Census Bureau standard the Congressional Budget Office (CBO) has charted the effect of income transfer programs on the percentage of families both lifted from and remaining in poverty as follows:[49]

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Income Counted	*Percentage of Families below Poverty Threshold*
Income before taxes and before transfers	27
Income before taxes but after social insurance transfers	15.7
Income before taxes but after transfers including welfare payments (excluding in-kind transfers)	11.3
Income before taxes but after transfers including medical benefits	8.1

Others charge that the poverty index overstates poverty not only by failing to count transfer income adequately, but also by overstating the cost of a nutritionally adequate diet, and by failing to consider wide variations in needs and living styles from state to state and locality to locality.[45] This last alleged failure is used to support federal block grants to the states that would permit them to take these local needs and variations into account in devising their own welfare programs.

Another criticism is that an income standard for determining poverty fails to consider assets, as in the case of many elderly who may have relatively low incomes but substantial assets, or the similar case of many self-employed. Still other critics of the administration's proposal contend that because welfare benefits are already so high that most welfare recipients cannot find jobs that will pay them more than they draw in welfare benefits, increasing these benefits will only serve to reduce the work effort of welfare recipients and will fail to move them to employment that is not subsidized by the government (see the section on Employment for Poor Families).[46]

Breadth of Coverage

Another issue of debate has been the categories and numbers of people who will gain or lose various benefits under the proposed program. Changes that will affect significant numbers of families include the following: 100,000 additional families will become eligible for AFDC-UP benefits as the AFDC-UF program is modified and extended to twenty-four more states and the territories;[47] welfare families headed by a single parent may increase in number from 3.37 million (projected for 1982 under current law) to 3.43 million in 1982 as a result of eligibility changes caused by the interplay of various definitions and disregards and eligibility to the breakeven income; in the case of the AFDC, coverage will be extended to pregnant women, if the woman and her child would be eligible at the birth of the child, in an additional twenty-six states (presumably, these cases are counted among the 60,000 additional single-parent families that would be added to AFDC rolls); and about 730,000 SSI families will receive the cash value of food stamps they have not elected to collect heretofore. Also, while about 5.6 million families claimed the EITC in 1978—for an average benefit of $202—[46] the administration estimates that 6 million families will benefit from the expanded EITC.[47] Emergency assistance now based on matching funds in twenty states, which benefited approximately 400,000 families in 1978, would be available to all states willing to participate, and would be available to needy families with children whose net income is more than twice the poverty threshold. Thus the number of people benefitting from this assistance could more than double.

The augmented coverage outlined above is criticized by some for leaving out large numbers of needy people. For example, 20.8 percent (5 million) of single persons and 2.9 percent (589,000) of couples without children fell below the Census Bureau poverty threshold in 1978[48] but under the administration's proposal would not receive cash benefits, would be excluded from the jobs component, and would be ineligible for the EITC. A poor childless couple can obtain AFDC benefits only if it has a child and if the principal wage earner is unemployed, or if the parents separate so one parent and the child can obtain benefits. One of the main reasons for complexity and inequity in the welfare laws, it is claimed, is that federal funds are available only to people in certain categories even though some in other categories may be equally deserving. These critics argue that categories should be ignored in favor of income level in determining AFDC eligibility.

Although the administration sought to extend coverage to childless couples and individuals in the Better Jobs and Income Plan (BJIP) submitted in the 95th Congress, it has advocated an incremental approach rather than full welfare reform in the 96th Congress because of its concern for costs of the program and the belief of some of its strategists that, while modest reforms can be obtained, comprehensive reform would fail to win approval, as it has in the past. The present welfare proposal it is claimed, is targeted to help those who can do the least to help themselves. Tying AFDC to families with children fulfills this objective, for children are largely unable to help themselves and a single parent often cannot work or can work only part time while raising children. Food stamps and housing assistance payments, for example, do make coverage of the current welfare system more universal.

Employment for Poor Families

Data from the Seattle Denver negative income tax (NIT) experiment, the most comprehensive of a series of experiments funded by HEW to determine the effects of a guaranteed income, indicated that a guaranteed income not tied to a work requirement correlated with a significant reduction in annual hours of work among persons receiving the guaranteed income, an effect acknowledged by secretaries Califano and Marshall. Table 2 shows the results of the various NIT experiments on reduction of work effort. Some critics of comprehensive welfare reform contend that for several reasons—for example, participants in the experiments knew the program would provide a guaranteed income for only a relatively short period—these experiments understate the reduction in work effort that would result from a permanent negative income tax or guaranteed income program.[31] Supporters of the administration's proposal contend, on the other hand, that the negative income tax experiments are not conclusive since the pattern of responses is too complicated to judge with certainty. Also, the NIT experiments provided payments that were generally higher than AFDC and more two-parent families were covered than is typical of AFDC. The reduction of hours worked by prime-aged husbands, with support payments at 85 percent of the poverty threshold and with a benefit reduction rate of 50 percent, it is claimed, would not be large. The response of wives, even though larger than that of husbands in percentage terms, was not large in terms of actual hours of reduced work time and does not portend any substantial withdrawal from the labor market. In any event it is claimed that such results may not carry over to a reformed welfare program that creates jobs. Tying jobs to a work requirement,

TABLE 2
ESTIMATED PERCENTAGE REDUCTIONS IN WORK HOURS IN FOUR INCOME MAINTENANCE EXPERIMENTS

	*Control/Experimental Differential as Percentage of Control Mean**			
	New Jersey (White)	Rural Wage Earners	Gary	Seattle-Denver
Husbands	6	1	7	6
Wives	31	27	17	17
Total	13	13	8	9
Female Heads	**	**	2	12

*These estimates are weighted averages of the response in hours worked of different population groups. Because of technical problems in estimating the response of black and Spanish-speaking groups in the New Jersey experiment, the estimates reported here for New Jersey are for whites only. Recent reanalysis of the New Jersey data provides evidence that the response of these groups is similar to that of whites. Total response (and base hours) include only husbands and wives in Gary and Seattle-Denver; in the other experiments they include other family members as well.

**None included in the experiment.

SOURCE: U.S. Department of Health, Education, and Welfare, *Summary Report: Seattle-Denver Income Maintenance Experiment*, February 1978, p. 13, Table 3.

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it is claimed, would move those capable of working off the welfare rolls while giving public support to those incapable of work.[32] Such is the strategy of the administration's welfare reform proposal.

Work Requirement. According to the present statute every individual seeking AFDC assistance (with certain exceptions) must register for manpower services, training, and employment, and AFDC benefits for that person will be cut off if he or she refuses training or a good faith offer of employment without good cause.[33] The administration's proposal would permit earlier termination of benefit payments than is mandated at present but it would adopt the good cause exception, now contained in regulations, permitting an individual to refuse training or employment if he would have less income (including the value of publicly funded in-kind benefits) after accepting the job or training than he had before. Many Americans can remember when the prevailing view was that a woman's place was in the home and that public assistance should be reserved for those unable to work, except in cases of temporary unemployment or retirement for reason of age. Changes in recent decades have challenged this view and heightened the debate over whether a work requirement should be mandated for aid recipients who are able to work. Numbers of female heads of households in the work place rose from 9 percent in 1940 to 43 percent in 1975, which included 31 percent with children under three years of age. The public's attitude toward requiring welfare mothers to work may also be influenced by the number of cases in which eligibility of the family is based on the father's absence (rather than his death or incapacity) or on the presence of illegitimate children. Moreover, the AFDC-UF program adopted in 1962 and the expanded food stamp program of 1970, in providing welfare benefits to an increasing number of employable individuals, added to the perception that too many welfare recipients live off public assistance rather than work.[34]

Nonetheless, a substantial number of individuals hold that claimants for welfare benefits should not be subjected to a work requirement, a view supported by the Heineman Report of 1969. The Heineman Commission believed that subjective judgments as to employability, with the risk of abuse in individual cases, are made at the lowest administrative levels, and that a freely operating market provides the only meaningful test of employability. "We do not think it is desirable to put the power of determining whether an individual should work in the hands of a government agency when it can be left to individual choice and market incentives."[35] The Heineman Commission stated that financial incentives should be used to encourage work by welfare recipients but a work requirement should not be mandated. Others contend that people on welfare do want to work and that a great many of them work when they are able to find employment or their health permits. Welfare families, they say, may receive benefits one year and be out of the program the next.[36] Work, in their view, should not be mandated when there are not enough jobs available in the economy to end unemployment generally. In the case of women with children, it is claimed that decision either to spend full time with the family or to work should rest with the mother.

On the other side it is argued that work has intrinsic merit and that the work requirement reflects society's values. Welfare families, it is argued, frequently stay on welfare for long periods of time—for example, 20.1 percent of the families involved in a 1975 HEW study had been on welfare from five to ten years and 7.7 percent had been on welfare from ten to twenty years.[57] Taxpayers are more willing to reward work to get these families off welfare than to provide welfare payments. A work requirement is necessary, it is claimed, to gain taxpayers' support for the program. In this view, the work requirement must be supplemented with a vigorous effort to establish work opportunities for principal earners in welfare families, as the administration proposes. We cannot afford to support a large segment of the population on welfare, some claim, when many of those on the assistance rolls are able to help themselves by working.

Some advocates of a work requirement contend that not enough is known about the factors influencing welfare families and about the design of a program that will move the welfare parent into unsubsidized employment. Thus some senators have proposed financing welfare through block grants to give the states much more leeway in experimenting with welfare programs.[58] States would then have the option of imposing differing work requirements or none at all.

Work Incentives and Disincentives. Providing financial incentives to encourage the heads of welfare families to accept employment is another major concern. Aside from the value of work in terms of raising self-esteem, for example, income from work may reduce the cost of welfare benefits overall, particularly if a family can work its way off welfare. If a family has to give up a dollar of welfare benefits for each dollar earned, employment will reduce the costs of welfare to the government to the maximum, but, from a practical standpoint, the family will gain no financial reward for working unless it can earn more than the benefit it is being paid and can get off welfare completely. Table 3 illustrates how income is supplemented and welfare costs are reduced when welfare payments are structured to reduce benefits dollar for dollar. However, if the family on welfare is able to retain 30, 50, or 70 percent of its earnings, it then has a financial stake in pursuing employment efforts. Welfare benefits are not structured so that these benefit reduction rates apply evenly from the first dollar earned. Table 4, derived from a table in the Heineman Report of 1969, illustrates how a family may be stimulated to work when it can retain earnings that, with welfare benefits, may range well above the welfare benefit ceiling that would obtain if a 100 percent reduction rate were applicable, and above the ceiling applicable to nonworking families of the same size. The combined earnings-benefit total may even exceed the poverty threshold in some cases, as reported by one witness in the 1978 Senate hearings who said it was theoretically possible for a New York welfare family to have a total annual income of $29,000 before the last dollar of AFDC disappears.[59] The income level at which welfare payments absolutely cease is called the "breakeven" as in table 4.

Table 5, also taken from the Heineman Report, shows that greatly increased welfare costs must be funded, even with a 50 percent reduction rate, because

TABLE 3
EFFECT OF OFFSET OF EARNED INCOME AGAINST
WELFARE BENEFITS AT A 100 PERCENT
BENEFIT REDUCTION RATIO

Earned Income	*Welfare Benefit*	*Total Income*
$0	$4,000	$4,000
1,000	3,000	4,000
2,000	2,000	4,000
3,000	1,000	4,000
4,000	0	4,000

additional families are eligible for benefits. The maximum AFDC benefit reduction rate that the states could impose on earned income was lowered from 100 percent to 67 percent in 1969. CBO points out, however, that this reduction has been partly offset by increases in the benefits and the benefit reduction rates of other programs, particularly food stamps. CBO estimates that on average, one additional dollar in earnings results in a reduction of 52 to 76 cents in net income when the combined effects of the various programs are considered.[59] Martin Anderson and others note instances in which the combination of welfare programs for a particular family

TABLE 4
BREAKEVEN INCOME LEVEL BY REDUCTION
RATE AND GUARANTEE LEVEL, FAMILY OF FOUR

	Breakeven Income by Reduction Rate		
Guarantee	30%	50%	70%
$2,000	$6,667	$4,000	$2,857
2,400	8,000	4,800	3,428
2,800	9,333	5,600	4,000
3,200	10,667	6,400	4,573
3,600	12,000	7,200	5,143
4,000	13,333	8,000	5,714

SOURCE: The President's Commission on Income Maintenance Programs, *Poverty Amid Plenty: The American Paradox*, 1969, p. 61.

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TABLE 5
ESTIMATED NET TRANSFER COST AND POPULATION RECEIVING PAYMENTS OF UNIVERSAL SUPPLEMENT PROGRAMS BY GUARANTEE LEVEL, 50 PERCENT REDUCTION RATE, 1971

Guarantee	*Breakeven*	*Net Cost** *(billions)*	*Population Coverage (millions)* Households	Persons
$2,000	$4,000	$3.5	7.8	26.9
2,400	4,800	5.9	10.5	36.8
2,800	5,600	9.3	13.5	48.1
3,200	6,400	14.0	16.7	60.2
3,600	7,200	20.0	20.5	74.6
4,000	8,000	27.5	24.2	88.3

*Cost estimates are net of offsetting savings in existing programs to all levels of government.

SOURCE: The President's Commission on Income Maintenance Programs, *Poverty Amid Plenty, The American Paradox*, 1969, p. 61.

produces a benefit reduction rate equal to or in excess of 100 percent. By comparison, the highest marginal tax rate for federal income tax purposes is 68 percent for individuals, a rate that applies only to the income of an unmarried individual exceeding $81,000. Thus, some advocates of welfare reform argue that the present welfare benefit reduction rate may be a considerable work disincentive to many families on welfare who might otherwise seek employment or a better job.

The results of the income maintenance experiments are said to show that workers in welfare families respond to work incentives such as more favorable benefit reduction rates.

Another disincentive to work cited is the absolute loss of Medicaid and public housing if income exceeds certain levels, the so-called notch effect, as distinguished from the gradual reduction of benefits with increased income under other programs. Thus, if an employer does not provide health insurance coverage that is roughly equivalent to Medicaid, the welfare family may be influenced to work fewer hours in order to keep its earned income and total welfare benefits below the breakeven. Another alleged disincentive to work is the fact that the low-wage positions available to those of low skills may not pay enough to exceed the sum the family will receive under welfare. Under the administration's proposal the head of a welfare family cannot be required to accept a job that pays less than welfare benefits, including the value of in-kind benefits.

The administration's proposed change in the AFDC work-incentive disregard may increase the work incentive of those taking low-paying jobs, by raising the first stage of the disregard from $30 to $70, but will offer less incentive than the present formula for those seeking somewhat better jobs, as the one-third of the remaining wages will be based on net rather than gross wages. In addition, the administration's proposed low-benefit disregard may provide some work incentive for beneficiaries in the states offering the lowest benefits.[91] As CBO points out, policy makers are faced with a dilemma. On a limited budget, high basic welfare benefits can be achieved for those with no income only if benefits are reduced for those with some income. But, if this is done, incentive for work will be lowered. As Martin Anderson notes, reducing the basic welfare benefit (which would not make the breakeven income seem so high to the voters) may be politically unfeasible, but lowering the benefit reduction rate to encourage work could cost the taxpayers billions of dollars.[92] On the other side it is argued that raising the rate may put families to work and take them off welfare, and thus may achieve long-term reductions in the cost of welfare.

The work incentive aspect of the administration's 1979 proposal recognizes the necessity of budgetary restraint. HEW computer simulations to illustrate what will happen in low-benefit, middle-benefit and high-benefit states indicate that AFDC benefit reduction rates have been kept in the middle range for single-parent families but two-parent families would not be able to keep a significant part of any additional earnings. See table 6. When the benefit reduction rate for all welfare programs in the HEW computer simulation are considered, the single-parent family will have a low benefit reduction rate for all programs at very low incomes. However, even the benefit reduction rate for combined programs rises rapidly with modest increases in income so the family approaching the breakeven will be able to keep very little of each additional dollar earned. This suggests the administration is counting heavily on the mandatory work requirement and the creation of jobs to get families off welfare and that it does not rely heavily on the work incentive of low benefit reduction rates to get families off welfare. The head of a single-parent family may be encouraged by a low benefit reduction rate to accept a low wage job, but there will be much less incentive to move up the income ladder and off welfare, particularly if the notch effect of loss of Medicaid eligibility and public housing are considered, matters not covered in the HEW computer simulations.

Tax Benefits. The administration relies on two forms of tax relief for welfare families and prospective employers. The earned income tax credit would be expanded. the EITC currently averages $310 per poor family per year but the new computation formula would produce an average refund of $375. Because this credit would not be available to jobs subsidized by the government, it is hoped this restriction will encourage low-income workers to seek employment in the private sector. If the EITC exceeds the worker's tax liability the difference is refundable. The EITC is like a subsidy to earned income and therefore should encourage work effort if private sector jobs are available. Like the negative income tax, additional administrative cost is low, for it requires no case workers or assets tests, and eligibility is established by filing the routine personal income tax return. The credit would be available only to families with children, as at present, but they would not have to be welfare families. Families that work and receive welfare would lose

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TABLE 6

ADMINISTRATION'S 1979 WELFARE REFORM INITIATIVE FOR FOUR MEMBER FAMILIES: AFDC BENEFIT REDUCTION RATES, ZERO INCOME GUARANTEES, AND BREAKEVEN INCOMES AND MULTIPROGRAM BENEFIT REDUCTION RATES

	Single Parent Families			*Two Parent Families*		
AFDC-Food Stamp Support Level	$4,654	$5,370	$6,444	$4,654	$5,370	$6,444
as % of Poverty Threshold	65	75	90	65	75	90
AFDC Zero Income Guarantee[a]	$3,039.99	$4,062.86	$5,597.14	$3,039.99	$4,062.86	$5,597.14
AFDC Breakeven Income	$8,516.53	$8,516.53	$11,544.57	$4,442.87	$4,442.87	$6,000.00
AFDC Benefit Reduction Rate[b]	61 to 43	61 to 43	61 to 43	92 to 80	92 to 80	92 to 65
Multi Program Benefit Reduction Rate for Same Income Span as for AFDC Benefit Reduction Rate[c]	18 to 91	24 to 91	24 to 91 to 77	83 to 86	83 to 86	83 to 91

[a] Adding food stamp benefit produces benefits equal to the percentage of the poverty threshold shown above.
[b] Percentage rate for lower income level is stated first; percentage rate stated last is applicable with income to the breakeven point.
[c] Percentage rates are stated in same order.

Source: HEW computer simulations, August 1979. State figures may vary from those shown. The projections consider the effect of Social Security taxes, income taxes, the earned income tax credit, AFDC, and food stamps at various family income levels. A low benefit income disregard of $1,022.00 was applied in calculations affecting support at 65 percent level. A standard work expense allowance of 20 percent of income was used in the computations. The initial earnings disregard for single parent families was $840 but no earnings disregard is contemplated for two parent families on AFDC. Benefit reduction rate percentages are rounded.

some of the advantage of the credit since the amount refundable would be counted as income, which would reduce the cash welfare benefit

Chairman Al Ullman of the House Ways and Means Committee proposed as an alternative to the administration's 1978 BJIP proposal a tax credit of $1,000 under similar ground rules for those earning between $5,000 and $7,500 a year, with a phase down in rate as income approached $15,000. The larger credit would have offset lower cash welfare benefits. It is argued that tax credits carry less stigma than welfare payments, and the credit might save some trips to the welfare office. The tax credit is viewed with skepticism by others, however, who believe that jobs in the private sector are not readily available and that, with the current decline in the economy, low-income persons will find it more difficult to locate such employment. Those who already have jobs in the private sector, it is said, will reap a gain that those in public sector jobs may not be able to attain.

The administration has not proposed changes in the tax credits available to employers in the private sector. Critics cite a study prepared for the Labor Department to support their claim that these credits have failed to stimulate the employment of the heads of welfare families. Only 11 percent of certified employers stated that the credit was a significant factor in their hiring decisions, thus supporting the contention that employers receiving the credit were rewarded for doing what they would have done anyway. The study reported finding no cases of additional hires over and above the jobs that normally would be filled; in addition, 70 percent of the employees hired with the benefit of the credit quit or were fired before their term expired.[??] Some argue that the complications of the credit, with its various ceilings and bases, discourage utilization.

Supporters of the credit believe that it was not aggressively advertised at the local level and that proper publicity will bring results. The administration is counting on this possibility to produce an additional 20,000 job openings in the private sector for AFDC recipients.

CREATING JOBS

By creating new jobs the administration hopes to employ heads of welfare families and thus offset some of the added welfare costs that will result from increased welfare benefits and from newly eligible families. Two major obstacles to achievement of the administration's goals are the limited skills of many welfare recipients and the difficulty of locating or creating jobs for them.

Employability of Welfare Recipients. [illegible] predictions for creating jobs for welfare [illegible] administration's [illegible] show that 94 percent of one-parent [illegible] headed by women, 60 percent of whom have children under six and [illegible] expected to work unless adequate child care is available. Thirty-four percent of the female-headed welfare families have children between six and fourteen and therefore may have to work part time if no one is at home when the children are not at school. Day care for working mothers of welfare children is said to be a substantial obstacle to employment. Labor Department figures show that slightly more than 180,000 children received day care from WIN and Social Security funding sources. No major funding for day care is included in the welfare package.

Over half of all welfare family parents have less than a high school education and their lack of skill is said to be the reason so many became welfare recipients. Census Bureau figures show that 14.1 percent of those below the poverty threshold are sixty-five or older and, along with most children, would not be expected to work. Census figures for 1977 show that 14.3 percent of the heads of poverty families not working and 3.8 percent of those who had worked less than fifty weeks claimed they were ill or disabled.[44] Thus, lack of good health may constrain employment even for heads of families who are otherwise expected to work. The Congressional Research Service concludes that about 15 to 18 percent of the recipients of six major welfare programs are employable by reason of physical condition, age, age of children, or job history, and about two-thirds of these work, some full time and some part time.[45]

Location and Creation of Jobs. The administration intends to use existing federal, state, and local services to find work for, to train, and to employ about 2 million persons. It estimates that about 600,000 new full-year jobs or training positions must be found or created to meet the needs of welfare-eligible families. A job search assistance program run by the states would attempt to place in private employment adults of families with children eligible for AFDC benefits. The eight-week job search period would include instructions, job searches, referrals for employment, employment development planning, supportive services such as child care, and finally, if the job-search effort is unsuccessful, referral for federally assisted work or training. The welfare family would draw or continue to draw welfare benefits during the eight-week job search period. The federal government would fund 90 percent of the cost of this eight-week effort, but states are expected to cooperate in any event since placements should reduce their financial burdens by moving families off welfare.

Federally funded jobs will be created and classroom training will be provided to those eligible under the administration's proposal, namely, the sole parent in a single-parent family with children, or the principal earner in a two-parent family with children, when these parents have completed the eight-week job search without success. Single persons and couples without children will not be eligible since the administration wishes to remove the maximum load from the welfare rolls using the limited number of jobs that are available. Only one job or training position per family will be provided. The administration will fund CETA employment and training by the states 100 percent. Most participants are expected to receive a mix of work and training. Flexible hours and part time work is expected to accommodate the special needs of single parents with young children. The administration will endeavor to encourage work projects that are needed in the local community, especially in economic development projects, work that is currently not being done by state and local governments

Labor Department officials have summarized categories of job possibilities—for example providing social services to the elderly and sick, providing child care, weatheri[illegible] and rehabilitating homes, and so forth—to show the feasibility of creating publicly funded jobs for low-skilled workers. The administration's response to critics of past efforts to provide jobs is that there have been recent and continuing improvements in the CETA program. It is claimed, for example, that during 1977 and 1978 the program responded quickly by creating over 1.3 million job and training opportunities to stimulate the economy, and that over 85 percent of these jobs were filled by the econ[illegible]ically disadvantaged, that is, those below 70 percent of the lower living standard income level or those with incomes below the poverty threshold, and certain special categories, such as those released from prisons. Some critics question this claim. Reforms are promised to help CETA deliver more jobs and training and to improve coordination with welfare administration. Participants in this phase of the program will have to return to an eight-week job search program at the end of eighteen months of public-service work, but continuing efforts will be made to place those in publicly funded work or training slots in private employment. The tax credits discussed above are expected to help place these eligible welfare heads of families in private employment.

Critics of the administration's earlier BJIP program were openly skeptical of its ability to create 1.4 million full- and part-time public service positions through which 2.5 million workers would pass each [illegible] Although the current proposal involves a smaller number of jobs, critics argue that private sector jobs are scarce, and that with a declining economy if heads of welfare families become employed, by special incentives or otherwise, they will displace existing job holders. Most private sector jobs have a skill requirement, however, that will disqualify the heads of welfare families. If employers are induced to lower skill requirements by wage subsidies or other incentives, it is claimed that productivity will suffer. A more unskilled work force, it is claimed, raises costs of production at a time when we are trailing other industrial countries in rate of productivity growth. The public sector jobs to be created are likely to be useless jobs, it is said, or they would have been undertaken already. Targeting heads of welfare families as teachers' aides is not likely to create many jobs since declining enrollments have already caused the layoff of qualified teachers. CBO points out that many jobs would have to be created in the South because of the high percentage of poverty population in that region, but that area has the least experience in developing large-scale employment programs.

The administration's strategy calls for a high rate of movement from public service jobs to the private sector. However, private sector jobs, it is claimed, are not going to be available in significant numbers to the classes of applicants involved. Data submitted in the 1978 hearings show that employment in manufacturing has declined in the central cities where so many welfare families live—for example, the percentage of five-year losses ranged from 13.8 to 43.2 in a list of eleven cities.[illegible] An employables program in San Diego is said to have placed only three out of fifty

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persons in a work search that included 782 potential employers. Public service jobs are likely to be dead-end jobs, it is claimed, that will not lead to careers, and the training provided may be phantom training for private sector jobs that do not exist.[68] Economists such as Edgar Browning, of the University of Virginia, argue that guaranteed public sector jobs provide little incentive for workers t[illegible]forth their best efforts. Such a program may create a new class of workers who might be paid above their marginal productivity and thus would have little incentive to leave for unsubsidized jobs. Such movement as there is from welfare to employment in the private sector, it is argued, will be influenced more by national economic trends and family dynamics than by changes in the welfare system. Welfare reform cannot solve the employment problem in isolation. Economic growth and development, elimination of racial discrimination, expanded educational opportunities, and other steps are required.[69] The Urban League has protested that jobs should be provided through full employment programs and that denial of the EITC to employees in public service jobs creates a two-class society that has inadequate provisions for the transition from public to private sector jobs.[70]

Proponents of the jobs proposal contend that, so far as the economy as a whole is concerned, raising the incomes of and finding jobs for those on welfare is good for the economy and for business because those living below the poverty threshold are currently underconsumers. Taxpayers would clearly be better off with needed services than without them and workers would learn skills that would bring them [illegible] the mainstream of society. Administration officials contend the CETA program [illegible] proving. The CETA progress report for the second quarter of 1979 is cited to [illegible] hat CETA enrollment totalled 1,608,000 during the first half of fiscal 1979 [illegible] that of the 677,600 who left the program, 124,400, or 38 percent, were placements in unsubsidized employment.[71]

Effect on Labor Markets and Wage Rates. The administration expects that wage rates paid by prime sponsors and averaging $7,200 a year will be adjusted upward to nearly $9,000 by 1982. Wage rates will vary among prime sponsors. Opponents of the proposed program contend that the jobs involved are, in many cases, now held by municipal employees and existing workers fear that local governments will replace them with CETA employees, as has happened in the past. If this happens, overall employment in these communities will not rise but municipalities will be spending federal funds rather than taxes raised from local sources to pay for certain services, a form of disguised revenue sharing. A 1977 study by the Brookings Institution found an 18 percent displacement rate for CETA programs on the average.[72] Labor leaders fear that the program will undermine employment standards, that the nation will have a less productive work force, and that the program will play havoc with labor relations in the public sector.

CBO noted of the prior BJIP proposal, which would have paid public service hires at the minimum wage, that the plan might upset the low wage private sector of the economy by luring workers into public service employment. It reported that in 1977 2.9 million persons were working below the minimum wage and that these

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jobs were concentrated in the agricultural and service occupations. CBO estimated in 1978 that occupants of one-third of the public service jobs to be created by BJIP by 1982, if they could compete freely for these jobs, might shift from jobs in the private sector.[73] CBO notes that substitution and displacement could occur in the private sector if, for example, private trash collection or private weatherization is replaced with public services. The wage standard now proposed for public service jobs is higher than the minimum wage but fewer additional public service jobs would be created under the administration's current proposal than under BJIP.

The administration regards the wage rate standard as a reasonable one and points out that public service jobs will be available only to the heads of welfare families. Thus, it does not foresee a rush of workers from the private sector applying for welfare in order to qualify for eighteen month, low-wage, low skill CETA jobs. It notes that steps have been taken to reduce the substitution of CETA jobs for positions normally funded by local governments. It does not believe that public takeover of private services is likely.

In Kind Benefits

In the decade from 1965 to 1975, 85 percent of the increased cost of need tested welfare programs came from growth of in kind benefits. In 1965 in kind programs accounted for only 39 percent of the costs of need-tested assistance. By 1975, they accounted for 69 percent.[74] Today Medicaid alone costs more than the principal cash benefit programs combined. One witness in the 1978 Senate hearings cited an interesting correlation between the types of benefits provided and how old the welfare assistance programs are: of eleven cash-only programs seven were enacted prior to 1960, whereas seventeen of twenty three service-only programs have been established since 1960.[75] Uneven use of these programs by eligible beneficiaries and the wide variations in costs of administration have stimulated demand for overall welfare reform. Should in kind programs be cashed out or should they be retained or significantly revised?

Food Stamps. The administration's earlier BJIP proposal would have cashed out food stamps entirely. Its current proposal would cash out food stamps for SSI recipients who do not live in a larger household. As noted earlier, this would provide added benefits to eligible persons who are not now using food stamps and would avoid the problem of obtaining stamps—many beneficiaries find it difficult to get to food stamp offices to pick up their allotment—and the stigma and loss of privacy that some think is associated with spending them. Food stamp allocations rise or drop as other income falls or increases, thus leveling out to some extent the variation in benefit levels from state to state. In some states food stamps may be the only welfare benefits available to strikers.

Food stamps still have a relatively low benefit reduction rate and high break-even point. Allotments are provided on the basis of uniform federal rules governing eligibility and amount, and they establish, in effect, a floor under the incomes of the

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more than 16 million people who received them in December 1978, many of whom were not eligible for cash aid. Thus, HEW officials cite the proposed partial cash out of food stamps as the start of a consolidated welfare system.[76] Since partial cash out of food stamps is seen as the forerunner of a much more comprehensive consolidation of benefit payments in the future, the arguments for and against a cash out of these in-kind benefits deserve careful consideration.

In supporting the total cash out of food stamps in the administration's BJIP proposal, HEW Secretary Califano argued that Congress, by eliminating the requirement that applicants for food stamps pay a certain sum to receive the stamps (a requirement intended to force families receiving such stamps to allocate approximately 30 percent of their income to food purchases), had made the benefit the equivalent of cash for all practical purposes. Consolidation of benefits in a single cash payment would simplify administration and reduce errors, fraud, and abuse.[77] An analysis by the Economic Research Service of the Department of Agriculture showed that aggregate food purchases would not decline with the cash out of food stamps and that there would be no adverse impact on farm income.[78]

Studies are said to show there is no evidence that recipients of food stamps pay more attention to nutrition when they use food stamps than when they use cash. It is claimed that food stamps deprive recipients of budget flexibility so that a mother of three in Mississippi may spend 77 percent of her total welfare benefits for food while a similar recipient in New York may spend only 15 percent of her benefits for food. In addition, there is said to be a black market in food stamps, and that their use by some, particularly the elderly, is claimed to be demeaning.[79] Thus, cash out will benefit many who do not now participate in the food stamp program because of inconvenience or the stigma involved.

Rep. James C. Corman (D Calif.), chairman of the special House subcommittee that recommended the total cash out of food stamps in connection with the BJIP initiative, claimed that it costs fourteen cents of every dollar to administer the food stamp program. "We can give $86 in food stamps or $100 in cash." Rep. William Clay (D Mo.) argued that the use of stamps is not consonant with our capitalistic system for we do not deal in barter or script but in cash. Rep. Carl D. Perkins (D Ky.) saw the cash out as a significant move toward comprehensive reform.[80]

Opponents of cash out contend that the food stamp program helps to feed those in economic distress and that it should be continued. Administrative costs, they say, can be reduced by standardizing eligibility criteria with those of AFDC and by introducing a single application for both benefits. Additional arguments are: the working poor should not be required to resort to welfare with its stigma when they may need only food stamps to tide them over difficult times; if food stamps are cashed out, the money may go for luxury items or liquor and it will be the children who suffer most; and food stamps assure that tax dollars are used for the purposes intended.[81] Some believe that if food stamps are cashed out there is no alternative to a guaranteed income varying in amount relative to earned income and the number of children. They argue that the guaranteed income, as discussed elsewhere in this analysis, will reduce work incentives and cause the breakup of marriages. Others

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see food stamps as necessary to assure a nutritionally adequate diet for some people who otherwise would buy the cheapest food, starches and the like, and still others claim food purchases will drop sharply and several thousand food producers and processors may lose their jobs and have to go on welfare. It is also claimed that food stamps are needed as they are the most responsive to changes in conditions in the economy."

Medicaid and Other In-Kind Benefits. According to Nathan, the real mess is not welfare but Medicaid.[*] The administration has not proposed the cash out of Medicaid benefits nor did it make such a proposal in its BJIP initiative. Medicaid benefits vary substantially from state to state and one state, Arizona, does not provide Medicaid coverage at all. Cashing out Medicaid and substituting an amount of money equal to its cost to cash assistance payments would eliminate differences in Medicaid treatment from state to state. On the other hand, it is argued that without Medicaid poor families would spend very little on health care.

Although the administration has relegated changes in health care programs to its proposed national health plan, it has nonetheless shown its concern for the interrelation of Medicaid and other welfare programs. Currently AFDC and SSI beneficiaries are automatically eligible for Medicaid where it is available. However, the administration, aware of the large costs involved, would not ask states that do not now have AFDC-UP programs to extend Medicaid coverage to newly eligible AFDC-UP families. Some of these states fear that failure to provide Medicaid coverage for AFDC-UP will subject them to suits seeking to compel coverage. Increased eligibility for AFDC, such as in the case of pregnant single women in many states, may add substantially to the cost of Medicaid in any event. The administration hopes that its program for training and employment will move families off welfare and into employment slots where the employer will provide health insurance coverage, which should thus reduce the overall increase in Medicaid costs.

A Rand Corporation study suggests that the welfare rolls may include a large number of people who are more in need of health insurance than income maintenance. The study, which included a four year survey of New York City's poor, showed that families on welfare rolls intermittently had a much higher level of Medicaid paid health care than did families on welfare continuously. A Rand spokesman concluded that a good deal of movement onto the rolls stems from demands for health care not covered by private insurance plans." Rep. Corman notes Medicaid is a work disincentive because some welfare families realize that if they make slightly more income they will no longer be eligible for Medicaid and will then be unable to pay their medical [illegible]. Family heads will increasingly check [illegible] the salary paid will raise [illegible] beyond the level allowing Medicaid coverage. These problems will remain even if the administration's welfare proposal is adopted.

The administration's proposal ignores the dispute over cashing out housing benefits of low income families. Only a small percentage of the poor can obtain public housing accommodations, and for a variety of reasons, including the complications involved, many families do not seek housing assistance subsidies and payments. HEW officials have suggested that the money now directed to the housing needs of a modest percentage of the poor might more appropriately be allocated to finance cash benefits for all those who are poor. Arguments for this cash out are similar in many respects to those advanced in the case of food stamps: administration would be less complicated, all those in similar situations would be treated equally, federal agencies could be abolished, and many government employees would no longer be needed.

Opponents of this move argue, among other things, that housing is a special situation. Private enterprise, it is said, is unable to build inexpensive housing for the poor without government assistance, and when the poor living in substandard housing are given a cash housing allowance, only about a third seek better housing.[46] The administration has suggested that improved cash assistance for poor families may reduce somewhat the amount of government housing subsidies paid under current programs. Tenants would be better off and thus would qualify for smaller subsidies.

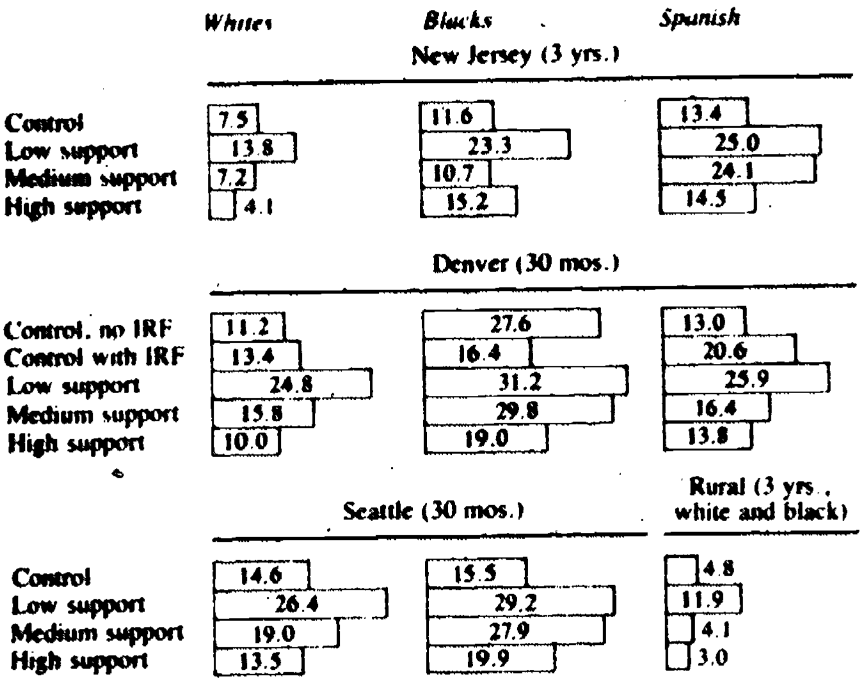
Effect on Marriages

The administration has proposed that AFDC-UF be extended to the twenty-four states that do not participate in that program. Limiting AFDC to single-parent households, it is claimed, has led men to abandon wives and children so the latter could qualify for AFDC benefits and could obtain food, shelter, and clothing. The single-parent family thrust of the current program has also been blamed for an increase in illegitimate births and delays or discouragement of remarriage. Such family disorganization, it is asserted, has denied large numbers of children the socializing experience of a family life, which provides discipline, training in good habits, and the care for emotional needs that is necessary for personal development. This disorganization is said to be responsible in part for the rise in both juvenile and adult crime. The administration's proposal is defended on the ground that there is no reason to penalize the two-parent family that is unable to find sufficient employment at decent earnings by denying it cash assistance.

Skeptics claim, however, that two-parent families in income maintenance experiments suffered a greater rate of breakup when receiving assistance payments than did similar families in control groups receiving no payments. The results of these experiments in terms of family dissolution rates are shown in figure 1. As for the charge that marriages break up so families can seek benefits under the current welfare system, critics of the administration's proposal say that factors in the current system that may cause the dissolution of marriages are difficult to isolate from general social trends in the nation. Thus, it is argued, we should not embark on a more ambitious income maintenance program, which may be harmful to the poor, until more definitive experiments have been conducted to determine what results may be expected from welfare policy.

FIGURE 1

Marital Dissolution Rates in the Negative Income Tax Experiments



SOURCE: From John Bishop, "Jobs, Cash Transfers, and Marital Instability: A Review of the Evidence," attached to the statement of the author, economist at the Institute for Research on Poverty, University of Wisconsin, U.S. Congress, Senate, Committee on Finance, *Hearings on Welfare Reform Proposals*, 95th Congress, 2d session (April 18, 1978), p. 841.

NOTE: Two-parent families were assigned to control and test groups randomly in tests that ran from three to five years. Families received cash assistance in the negative income tax experiments cited. The percentage of the families splitting is shown in numerals on each bar.

Administration witnesses contend that the experiments cited are not conclusive since there was no work requirement as there is in the present proposal. In their view several factors may explain the breakup of marriages in the experiments, such as the wife's recognition that the husband was a failure as a breadwinner or his loss of pride when his support was no longer important to the family. In any event, the administration claims that its proposal will provide jobs to lift families out of poverty and that it makes a difference whether money to support the family is earned or given to the family. The administration's proposal, it is claimed, will help to prevent family dissolution to the extent this is possible and should provide a reasonable level of support until the breadwinner obtains gainful employment.

Critics counter that since few jobs may be available in the private sector, the make-work jobs to be provided by the administration will only confirm that the breadwinners are a part of the welfare population and not of the working population. These critics contend that jobs could be provided without reforming the welfare laws and that this might prove as successful as the administration's so-called reforms.

NOTES TO TEXT

[1] U S Congress, Senate, Subcommittee on Public Assistance of the Committee on Finance, *Hearings on Welfare Reform Proposals*, 95th Congress, 2d session, February 7 through May 4, 1978 (hereafter *1978 Senate Hearings on Welfare Reform*), p 434 Table I from data provided by committee staff.

[2] Library of Congress, CRS Issue Brief IB77069, *Welfare Reform*, updated July 9, 1979 p 5

[3] Frederick Doolittle, Frank Levy, and Michael Wiseman, "The Mirage of Welfare Reform," *The Public Interest*, vol 47 (Spring 1977), pp 62, 65

[4] Library of Congress, CRS Issue Brief IB77069, *Welfare Reform*, updated July 9, 1979, p 1

[5] Doolittle et al , "The Mirage of Welfare Reform," pp 62, 65–67

[6] Statement of Rep Barber B Conable, Jr (R-N.Y) in *Income Redistribution*, ed Colin D Campbell (Washington, D C : American Enterprise Institute, 1977), p 246

[7] See House Report 96–285, pp 6–9; Library of Congress, CRS Issue Brief IB74013, *Aid to Families with Dependent Children Structural Change*, updated July 9, 1979, p 4 Additional information on this and other programs discussed in the text may be found in Michael C Barth, George J Carcagno, and John L Palmer, *Toward an Effective Income Support System Problems, Prospects, and Choices* (Madison, Wisconsin: Institute for Research on Poverty, 1974), pp 14–24, *Congressional Quarterly Almanac* (Washington, D C Congressional Quarterly, Inc), vol 33 (1977), p 473; *1978 Senate Hearings on Welfare Reform*, pp 704–711, study submitted with the testimony of John E Cosgrove, legislative director Public Employees Department, AFL-CIO, "Congress and the Welfare Reform Controversy," *Congressional Digest*, vol 57 (May 1978), p 131

[8] See, for example, the list of ninety-one programs in Martin Anderson, *Welfare The Political Economy of Welfare Reform in the United States* (Palo Alto, California Hoover Institution Press, 1978), pp 211–226; the table of forty four national programs submitted by management consultant Charles D Hobbs, Sacramento, California, in *1978 Senate Hearings on Welfare Reform*, p 899, or the list of more than ninety welfare and social insurance programs targeted in the statement of James Hacking, assistant legislative counsel, National Retired Teachers' Association and American Association of Retired Persons, *1978 Senate Hearings on Welfare Reform* pp 870–873 See also William J Lawrence and Stephen Leeds, *An Inventory of Federal Income Transfer Programs* (White Plains, New York The Institute for Socioeconomic Studies 1978)

[10] "The $60 billion Welfare Failure What Carter Could Do," *Business Week* January 17, 1977, pp 48–49, cites the case of a welfare mother with six children who drew benefits that would otherwise have required an income of $20,000 and quotes another mother with three children in East Harlem who had $8 a day left over with which to buy food, clothing and medicine

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[10] Anderson cites Milton Friedman's negative income tax (1962), Robert Theobald's guaranteed income (1965), James Tobin's guaranteed income plan (1965), R. J. Lampman's subsidy plan (1967), Edward Schwartz's guaranteed income (1967), the negative income tax plan of President Johnson's Income Maintenance Commission (1969), President Nixon's FAP (1969), George McGovern's $1,000-a-year demogrant plan (1972), Great Britain's credit income tax (1972), and HEW's income supplementation plan (1974). Anderson, *Welfare*, pp. 133–134. The effect of the Friedman proposal on the climate of public opinion for welfare reform is discussed in a speech of Wilbur J. Cohen, dean of the school of education at the University of Michigan and former secretary of HEW, reprinted in *1978 Senate Hearings on Welfare Reform*, p. 1155. A discussion of the negative income tax proposal may be found in Yale Brozen, "Toward an Ultimate Solution," *Saturday Review*, May 23, 1970, p. 30, and in Edgar K. Browning, *Redistribution and the Welfare System* (Washington, D.C.: American Enterprise Institute, 1975), p. 65.

[11] See the defense of this proposal in Daniel P. Moynihan, "One Step We Must Take," *Saturday Review*, May 23, 1970, p. 20. The reasons why FAP did not win acceptance from Congress are explored in Daniel Patrick Moynihan, *The Politics of a Guaranteed Income* (New York: Random House, 1973).

[12] The demogrant plan and variations are cited in Edgar K. Browning, "How Much More Equality Can We Afford?" *The Public Interest*, Spring 1976, pp. 90, 105–108.

[13] *Congressional Quarterly Almanac* (1977), p. 471.

[14] H.R. 4321 was introduced by Rep. James C. Corman (D-Calif.) and Al Ullman (D-Ore.). S. 1290 was introduced by Sen. Daniel Patrick Moynihan (D-N.Y.) and seven cosponsors. H.R. 4425 was submitted by Rep. Augustus F. Hawkins (D-Calif.) and Carl D. Perkins (D-Ky.). S. 1312 was introduced by Sen. Gaylord Nelson (D-Wisc.) and ten cosponsors.

[15] Calculation of the low-benefit disregard is illustrated in the case of an AFDC family in Texas for the years 1980 and 1981 as follows:

SETTING MAXIMUM VALUE OF LOW-BENEFIT DISREGARD

AFDC and food stamp benefit at 65 percent of the poverty level		$388
AFDC portion of the above benefit	$253	
AFDC basic benefit level (payable to a family with no income)	-140	
Potential low-benefit disregard		$113

EFFECT OF LOW-BENEFIT DISREGARD ON INCOME

AFDC Benefit without low-benefit disregard		
AFDC basic benefit level (payable to a family with no income)		$140
Gross earnings	$600	
Deductions and revised work-incentive disregards ($120 standard work expense deduction, $100 child care deduction,		

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$70 earnings disregard, $103-disregard of one-third of remainder of net income)	-393	
Countable income		-207
AFDC benefit		nil
AFDC Benefit allowing for low-benefit disregard		
AFDC Basic Benefit Level		$140
Gross earnings	$600	
Deductions and work-incentive disregards	-393	
Earnings net of deductions and work incentive disregards	$207	
Low-benefit disregard	-113	
Countable income		-94
AFDC benefit		$46

See U.S., Department of Health, Education, and Welfare, *President Carter's Proposal for Welfare Reform*, May 23, 1979 (revised June 6, 1979) (hereafter *HEW Factsheet*), p. 42.

[16] Since eligibility for AFDC can be attained so long as income (net of all disregards) is less than the eligibility ceiling or "breakeven," this change is sometimes referred to as extending "eligibility to the breakeven."

[17] Quoted in "Congress and the Welfare Reform Controversy," *Congressional Digest*, p. 153.

[18] The high benefit rate reduction for welfare recipients who obtain employment (sometimes referred to as a high marginal tax rate because of the reduction in benefits that occurs when a recipient's earned income is increased by a dollar) is discussed and illustrated in Anderson, *Welfare*, pp. 43–56. It is claimed that in some instances benefit reduction rates approach or even exceed 100 percent. Barth et al., *Toward an Effective Income Support System*, p. 124.

[19] See the attachment to the statement of James N. Morgan of the Institute for Social Research, Ann Arbor, Michigan, *1978 Senate Hearings on Welfare Reform*, pp. 1012–1014.

[20] *1978 Senate Hearings on Welfare Reform*, p. 440. See also pp. 1004–1005, Table 8.1 in article submitted by James N. Morgan.

[21] CRS Issue Brief IB77069, *Welfare Reform*, p. 5.

[22] Barth et al., *Toward an Effective Income Support System*, pp. 40, 160; "The $60 Billion Welfare Failure," *Business Week*, p. 55.

[23] Doolittle et al., "The Mirage of Welfare Reform," p. 63.

[24] "The $60 Billion Welfare Failure," *Business Week*, p. 54. Recipients of AFDC benefits in low cash-benefit states are eligible for more food stamps than those in high benefit states.

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since AFDC benefits and othe transfer payments are counted as income under the food stamp program, which reduces the value of food stamps given to recipients in high cash-benefit states

See Browning, "How Much More Equality Can We Afford?" pp 92–93.

Cited in Anderson, *Welfare*, pp 23–24 References to earlier challenges to official poverty figures are cited in Henry Hazlitt, *The Conquest of Poverty* (New Rochelle, N Y Arlington House, 1973), pp 31–39

Income Redistribution, p 226, *1978 Senate Hearings on Welfare Reform*, pp 1148–1152

HEW Factsheet, p 36

1978 Senate Hearings on Welfare Reform, p 809

The President's Commission on Income Maintenance Programs, *Poverty Amid Plenty The American Paradox*, 1969 (hereafter the *Heineman Report*), p 151

Congressional Budget Office, *Welfare Reform Issues, Objectives, and Approaches*, July 1977, p 60, note 12, Barth et al , *Toward an Effective Income Support System*, p 95

Shapiro v Thompson, 394 U S 618 (1969)

The Citizens' Budget Commission, a New York research group, quoted in Peter Kihess, "South Fostering Relief Rise Here," *New York Times*, October 14, 1968

1978 Senate Hearings on Welfare Reform Proposals, pp 682–683, responses of Robert B Carlson, former U S commissioner of welfare and director of the California State Department of Social Welfare, on behalf of the Chamber of Commerce of the United States to written questions from Sen Moynihan

Hazlitt, *The Conquest of Poverty*, p 198

U S Department of Commerce, *Statistical Abstract of the United States 1978*, p 456

U S Congress, Senate, Subcommittee on Public Assistance of the Committee on Finance, *Hearings on Welfare Block Grant Fiscal Relief Proposal* (hereafter *1978 Senate Block Grant Hearings*), 95th Congress, 2d session, p 62, statement of Sen Moynihan

CBO, *Welfare Reform, Issues, Objectives and Approaches*, p 29, fn 23

Sen Robert Dole (R Kans) quoted in "Welfare President Proposes New Legislation to Overhaul Nation's Welfare System," *Bureau of National Affairs Daily Report for Executives* (hereafter *BNA DER*), May 23, 1979, p G 10

Congressional Record, vol 125 (June 30, 1979), p S 8155, *1978 Senate Block Grant Hearings*, p 682

See for example, *1978 Senate Hearings on Welfare Reform*, p 1316, statement of the United States Catholic Conference and the National Conference of Catholic Charities, Ibid p 1374, letter from Margaret Ceis, president, Council of Planning Affiliates, Seattle, Washington, to the chairman of the subcommittee on welfare reform, ibid , p 1211, testimony of Victoria Fletcher of the New Orleans Legal Assistance Corporation

HEW Fact Sheet, pp ~~22~~, 43

Congressional Record, vol. 125 (June 6, 1979), p. S7125.

CBO, *Welfare Reform: Issues, Objectives, and Approaches*, p. xxii, Table s-1; U.S. Department of Commerce, *Statistical Abstract*, 1978, p. 468, Table 758 (as of 1976).

Regarding a nutritionally adequate diet, see Rose D. Friedman, *Poverty: Definition and Perspective* (Washington, D.C.: American Enterprise Institute, 1965); Anderson, *Welfare*, pp. 211–225. The poverty threshold was derived by multiplying the stipulated level of diet by three, since food then required about one-third of the expenditures of low income families. A study by HEW in 1974 concluded that all poverty thresholds are necessarily subjective. Accepted standards for nonfood items do not exist so the Census standard is based on an average ratio of expenditures on nonfood items to expenditures on food items. Including assets in the definition of income (assets are excluded) would reduce the number of poor by 18 percent if all liquid assets were included, by 16 percent if rent imputed from home ownership is included, and by 41 percent if net worth available to meet consumption requirements is included. "There are options that would increase the poverty count; there are equally valid changes that would reduce it. It can be concluded that any poverty definition may be subject to valid criticism." U.S. Department of Health, Education, and Welfare, *The Measure of Poverty*, April 1976, pp. xxi–xxvi, 98–99. A 1972-1973 consumer expenditure survey of the Bureau of Labor Statistics showed that the percentage of family income spent on food varied greatly by income level. Thus, families with incomes less than $1,875 spent 69.2 percent of income on food, those with income from $1,875 to $3,399 spent 35.1 percent, those with income from $3,400 to $4,999 spent 27.3 percent, those with incomes from $5,000 to $6,899 spent 22.6 percent, those with incomes from $6,900 to $8,749 spent 19.7 percent, and those with higher incomes spent progressively less on food as a percentage of income. U.S. Department of Labor Statistics, *1972–73 Consumer Expenditure Survey*, Release No. 75-276.

Gordon Lee Weil, *The Welfare Debate of 1978* (White Plains, N.Y.: Institute for Socio-economic Studies, 1978), p. 71, quoting former Rep. Martha W. Griffiths that in two of six areas surveyed the welfare mother's welfare income could exceed that of the average family's working man. CBO also states that benefits allowed in some states exceed what a recipient could earn. CBO, *Welfare Reform: Issues, Objectives, and Approaches*, p. 25.

The administration argues that welfare rolls for AFDC-UF will drop from 106,000 families to 90,000 notwithstanding the addition of 100,000 families with the conversion to AFDC-UP if the jobs component of its program is as successful as predicted.

CRS, *Welfare Reform Background Papers*, p. 99.

About 100,000 families now benefiting from the EITC will not be eligible for this benefit while they hold public employment jobs. The administration estimates that another million families receiving newly available public service employment opportunities will also not receive EITC benefits. *HEW Fact Sheet*, p. 29.

See CBO, *Welfare Reform: Issues, Objectives and Approaches*, p. 100, Table C-20.

See, for example, Anderson, *Welfare*, pp. 211–226. For the testimony of secretaries Califano and Marshall see *1978 Senate Hearings on Welfare Reform*, pp. 216, 351.

Spencer Rich, "Income Plan Linked to Less Work," *Washington Post*, November 16, 1978, quoting Labor Department special assistant for welfare reform, Jodie Allen.

[53] 42 U.S.C. 602(a)(19). Registration for training or employment is not required if the person is: a child under sixteen or attending school full time, ill, incapacitated, or of advanced age; so remote from a work incentive project that his effective participation is prevented; required to be home because of the illness or incapacity of another member of the household; a mother or other relative caring for a child under the age of six; in some cases a mother or female caretaker of a child when there is a man in the household

[54] Lester M. Salamon, *Toward Income Opportunity, Current Thinking On Welfare Reform* (The Institute of Policy Sciences and Public Affairs of Duke University–The Ford Foundation, 1977), pp. 160–161

[55] *Heineman Report*, p. 59

[56] The median number of months on AFDC in March 1977 was 25.2. CRS, *Welfare Reform Background Papers*, p. 17. *Heineman Report*, p. 59

[57] *1978 Senate Hearings on Welfare Reform*, p. 361, written response of Ray Marshall, secretary of labor, to questions from members of the Senate Finance Committee

[58] See, for example, *Congressional Record*, vol. 125 (March 20, 1979), p. H1518, explaining H.R. 3105 introduced by Rep. Charles E. Grassley (R-Ia.), pp. S 8155–S 8157 discussing S. 1382 introduced by Sen. Russell B. Long (D-La.), Robert Dole (R-Kans.), Herman E. Talmadge (D-Ga.), Bob Packwood (R-Ore.), Lloyd M. Bentsen (D-Tex.), and Richard S. Schweiker (R-Pa.) and (July 26, 1979), pp. S 10658–S 10659, discussing S. 1579 by Sen. David L. Boren (D-Okla.). One scholar argues that instead of again studying welfare reform perhaps we should investigate how we can upgrade jobs and make them more attractive to the poor. In his view, good jobs can compete with welfare, poor jobs cannot. Nathan Glazer, "Reform Work, Not Welfare," *The Public Interest* (Summer 1975), p. 3

[59] Weil, *The Welfare Debate of 1978*, pp. 47–48. Statement of Blanche Bernstein, New York human resources administrator

[60] CBO, *Welfare Reform: Issues, Objectives and Approaches*, p. 25, n. 16. Social Security taxes may take another 6 cents out of each dollar and some families may find that the payment of income taxes (subject to offset by EITC) also serves as a disincentive to work. For examples of the effect of benefit reduction rates on program costs and work incentives under FAP, see Moynihan, *The Politics of a Guaranteed Income*, pp. 475–479; Jodie T. Allen, *A Funny Thing Happened on the Way to Welfare Reform*, Washington, D.C.: The Urban Institute, January 1972

[61] The administration seeks to discourage families now earning in excess of the welfare benefit that a family of like size would draw if it had no income from quitting jobs to qualify for welfare. This would be accomplished by making families eligible to the breakeven at the time of their application for benefits, not just after they have once qualified with lower wages or no wages. The 100 hour per month work hour limit for parents attempting to qualify for AFDC-UP benefits would be replaced by a standard to be included in regulations, which would permit a principal earner for the family to earn up to $500 a month and still qualify for AFDC-UP. This, coupled with eligibility to the breakeven, would probably encourage some workers in low-wage jobs not to reduce their hours of labor as quickly as before. CBO refers to the old 100 hour rule as producing significant work disincentives

However, its elimination could extend eligibility for welfare to many more families. Barth et al., *Toward an Effective Income Support System*, p. 102. As Barth et al. point out, the closer the work limitation is to full-time employment the greater the inequity for low-income families not on welfare.

[62] CBO, *Welfare Reform: Issues, Objectives and Approaches*, p. 31; Anderson, *Welfare*, p. 49.

[63] *1978 Senate Hearings on Welfare Reform*, pp. 1180–1184, statement of Harriette Johnson, professor of welfare policy, Adelphi School of Social Work, for the Long Island Coalition for Full Employment.

[64] U.S. Department of Commerce, Bureau of Census, *Current Population Reports*, Series P-60, No. 119, March 1979, "Characteristics of the Population below the Poverty Level, 1977."

[65] CRS Issue Brief IB 77069, *Welfare Reform*, p. 5.

[66] Weil, *The Welfare Debate of 1978*, pp. 18–27, summarizes the testimony criticizing that proposal; see also "Congress and the Welfare Reform Controversy," *Congressional Digest*.

[67] *1978 Senate Hearings on Welfare Reform*, p. 1204, from an analysis prepared by the Department of Public Policy Analysis of the American Federation of State, County, and Municipal Employees.

[68] "Congress and the Welfare Reform Controversy, *Congressional Digest*, p. 141–144, statement of Jerry Wurf; ibid., p. 151, statement of Bob Cheeks, executive director, Baltimore Welfare Rights Organization.

[69] "Welfare: Moynihan Denies that Hearings are 'Funeral' for Meaningful Reform," *BNA DER*, November 17, 1978, p. G-3; p. G-4, testimony of Bradley Schiller, director of the Center for Labor and Income Studies, American University; *1978 Senate Hearings on Welfare Reform*, pp. 1148–1152, from an article by Wilbur J. Cohen.

[70] "Congress and the Welfare Reform Controversy," *Congressional Digest*, p. 145, statement of Jerry Wurf.

[71] U.S. Department of Labor, Employment and Training Administration, *CETA Progress Report Second Quarter FY '79*, June 19, 1979.

[72] See *1978 Senate Hearings on Welfare Reform*, p. 1070, for an executive summary of that study. See also Daniel S. Hamermesh, "Subsidies for Jobs in the Private Sector," in John L. Palmer, ... *...ating Jobs* (Washington, D.C.: Brookings Institution, 1978), pp. 98–100.

[73] CBO, *W... Reform: Issues and Objectives an... Approaches*, p. 43; CBO, *The Administration's Welfare Reform Proposal*, pp. 100–101. Rep. Augustus F. Hawkins (D-Calif.) and Carl D. Perkins (D-Ky.) would give blue-collar and low-income workers CETA jobs that the administration would earmark for heads of welfare families. Single persons and childless couples would also be given the opportunity to qualify for these public service jobs. *Congressional Record*, vol. 125 (June 12, 1979), p. H 4404.

[74] Salamon, *Toward Income Opportunity*, pp. 29–30.

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[75] *1978 Senate Hearings on Welfare Reform*, pp. 895-896. Testimony of Charles D. Hobbs, a consultant of Sacramento, California.

[76] *HEW Factsheet*, p. 56.

[77] *1978 Senate Hearings on Welfare Reform*, p. 28. New food stamp regulations, proposed to tighten up the program, are criticized by the state welfare administrator of Indiana, Wayne Stanton, as inviting fraud and program misuse. Stanton contends that the regulations will restrict state investigations to verify eligibility, that applicants will no longer be required to have cooking facilities to qualify, and so forth. "Food Stamps Charade," *Indianapolis News*, July 23, 1979. Officials of the food stamp program expect the regulations to eliminate 1 million people from the food stamp rolls and to encourage another 3 million poor to apply for food stamps.

[78] *1978 Senate Hearings on Welfare Reform*, pp. 183-185.

[79] "Should Government Give Cash Instead of Food Stamps?" *Congressional Quarterly*, v. 36 (January 21, 1978), pp. 129-130.

[80] Ibid.

[81] Ibid.

[82] Ibid.

[83] Weil, *The Welfare Debate of 1978*, p. 75.

[84] "Many Welfare Applicants Reported Seeking Medicaid," *Washington Star*, November 17, 1978.

[85] "Transcript of BNA Interview with Rep. James Corman," *BNA DER*, December 22, 1978, p. J-6.

[86] Michael Sumichrast, "Welfare Planning Ignites Struggle," *Washington Star*, August 6, 1977. "Many Welfare Applicants Reported Seeking Medicaid," *Washington Star*, November 17, 1978. OMB is said to believe that housing benefits will increase and that by 1984 they will cost nearly as much as food stamps and more than AFDC benefits. Peter Milius, "The Third Branch of Welfare," *Washington Post*, August 5, 1979.

[87] Barth et al., *Toward an Effective Income Support System*, p. 99.

[88] CBO, *Welfare Reform: Issues, Objectives and Approaches*, p. 24.

[89] Jodie T. Allen, *A Funny Thing Happened on the Way to Welfare Reform* (Washington, D.C.: The Urban Institute, January 1972).

[90] CBO, *Welfare Reform: Issues, Objectives and Approaches*, p. xxvii.

[91] *1978 Senate Hearings on Welfare Reform*, p. 504.

[92] If a family disposes of assets at less than fair market value within 24 months of the application for benefits, it would be denied benefits for a period of time that varies with the value of the assets disposed of. HEW justifies allowing benefits on this basis rather than total denial for fraud in qualifying for welfare assistance on the ground that proving intent to defraud is difficult and often unsuccessful.

[93] See Barth et al., *Toward An Effective Income Support System*, p. 37

[94] *Congressional Record*, vol. 125 (June 6, 1979), p. S 7124

[95] CBO, *The Administration's Welfare Reform Proposal*, p. xxvii.

[96] *1978 Senate Hearings on Welfare Reform*, p. 1337, statement of Clifford J. White, III, legislative representative, National Taxpayers Union; ibid., p. 667, statement of Robert B. Carlson; "Woman Pleads Gu[illegible]gal Welfare Aid," *Washington Star*, January 19, 1979; "Jury Indicts 75 in $1 Millio[illegible]are Fraud," *Washington Post*, July 29, 1979; "Few Absent Fathers Pay Support," *Was[illegible]gton Post*, July 2, 1979; "Only $7 Billion," *Washington Star*, April 10, 1978; Doolittle et al., "The Mirage of Welfare Reform," p. 87, *BNA DER*, March 19, 1979, p. A-3

[97] U.S. General Accounting Office, *Welfare Payments Reduced*, GGD-78-107, February 1979; Spencer Rich, "Gumshoes Use Computers to Help Nab Welfare Cheaters," *Washington Post*, April 15, 1979. The usefulness of computers has been discounted and computer matching has been criticized as a threat to privacy in Evan Hendricks, "How Not to Catch Welfare Cheaters," *Washington Post*, July 1, 1979.

[98] "Scaled Down Carter Welfare Plan Announced," *Congressional Quarterly*, May 26, 1979, p. 1013

[99] CBO, *Welfare Reform: Issues, Objectives and Approaches*, p. 49

[100] Ibid., pp. 48–49; Barth et al., *Toward An Effective Income Support System*, pp. 107–109; CBO, *The Administration's Welfare Reform Proposal*, pp. 27–31, 122–123, 137–142

[101] See also *HEW Factsheet*, pp. 52–53, 58–62

[102] See S. 965, 96th Congress, 1st session and *Congressional Record*, vol. 125 (April 10, 1979), pp. S 4337–S 4339

[103] See *1978 Senate Hearings on Welfare Reform*, p. 113. The administration would hold harmless the thirteen states whose level of payments would be raised to 65 percent of the Census Bureau poverty thre[illegible]ld for the increased costs of this reform for the first five years, and relief would be phased out over the three years following that period.

[104] Committee for Economic Development, *Welfare Reform and Its Financing*, 1976

[105] *1978 Senate Hearings on Welfare Reform*, pp. 19–20, data supplied by Secretary Califano

[106] Ibid., pp. 36–42, 55–63; Linda E. Demkovich, "The Numbers Are the Issues in the Debate Over Welfare Reform," *National Journal*, vol. 20 (April 22, 1978), p. 633; Weil, *The Welfare Debate of 1978*, pp. 87–95

[107] *1978 Senate Hearings on Welfare Reform*, p. 666

[108] CBO estimated that eliminating the asset screen in BJIP would add 691,000 cash assistance recipients to the welfare rolls. CBO, *The Administration's Welfare Reform Proposal*, p. 121

[109] Ibid., pp. 121–123

[110] Barth et al., *Toward an Effective Income Support System*, p. 102

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[111] CBO, *The Administration's Welfare Reform Proposal*, p. 128

[112] Daniel S. Hamermesh, "Subsidies for Jobs in the Private Sector," in *Creating Jobs: Public Employment Programs and Wage Subsidies*, ed. John L. Palmer (Washington, D.C.: Brookings Institution, 1978), pp. 87-115. George E. Johnson and James D. Tomola, "The Fiscal Substitution Effect of Alternative Approaches to Public Service Employment Policy," *Journal of Resources*, vol. 12 (Winter 1977), pp. 3-26.

[113] *1978 Senate Hearings on Welfare Reform*, p. 647, statement of Keith Comrie, director of the Louisiana Department of Public Social Services. Compare Barth et al., *Toward an Effective Income Support System*, pp. 164-165.

THE STATUS OF WELFARE REFORM IN THE UNITED STATES

"... there is nearly universal agreement that some kind of a welfare system is needed to respond to the problem of poverty, but there is considerable disagreement over who should be helped and in what way."

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PUBLISHER'S NOTE: *Pres. Carter's welfare reform plan was announced as this issue of Intellect went to press. Consequently, Dr. Anderson's article contains references to the Administration's [illegible] of new proposals concerning welfare. We are publishing this comprehensive article, nevertheless, because it still offers excellent background information and valid proposals, many of which Pres. Carter included in his own program. The article provides constructive approaches to the nation's welfare problem and should prove helpful during the future Congressional debate on the welfare plan.*

POVERTY, like death and taxes, seems always to be with us. Like the weather, it is more talked about than controlled. The Bureau of the Census estimates that there are about 25,900,000 persons living in poverty ($5,820 for a family of four).[1] With almost 12% of the population experiencing the rigors of an impoverished existence, it is hardly surprising that welfare reform is an important political issue. As might be expected, there is nearly universal agreement that some kind of a welfare system is needed to respond to the problem of poverty, but there is considerable disagreement over who should be helped and in what way. Indeed, would-be reformers are so diverse in their beliefs about, and perceptions of, poverty and welfare that ongoing argument seems more likely than successful change. The Carter Administration is committed, however, to seeking change. An analysis of reform alternatives may provide insight into the Administration's plans as they gradually unfold.

At one end of the continuum of opinion are political conservatives who view poverty as largely self-caused. Persons holding this view see poverty as best alleviated by temporary cash or "in-kind" (non-cash) assistance to those in need. Welfare reform should be the search for the most efficient and economical way of providing such assistance. Welfare should not compromise the work ethic nor intrude on the status of the working poor.

At the other end of the continuum are those who see poverty as a complex social ill not remedied by a cash or in-kind assistance program alone. Poverty is viewed as endemic to the political economy of the country. While dysfunctional to those who must suffer it, poverty is also seen as serving economic, social, cultural, and political functions for the larger nonpoor groups in American society.[2] If nothing else, it ensures the existence of a labor pool that will settle for low wages. Persons holding this view of poverty search for ways to achieve more nearly egalitarian income distribution, which might involve major political and economic reforms.

The major proposals for welfare reform will be reviewed in terms of their relative complexity, moving from a limited cash or in-kind assistance program to proposals for massive kinds of income redistribution and system

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change.[4] If there is presently no agreement on the exact nature of the reforms to be made, there is a growing demand that the welfare program be changed.[5]

Existing programs

Since there are many misconceptions about the public welfare system and how it operates, a beginning understanding of the existing programs is essential to understanding current debates.

Prior to the passage of the Social Security Act in 1935, the relief of poverty was the province of voluntary charitable efforts and public aid through local government. During the Great Depression of the 1930's, these resources were insufficient to meet the enormous need and state governments, eventually with help from Washington, took over a large part of the funding responsibility. The Social Security Act of 1935 provided grants to the states to assist with the relief of three groups of indigents: the aged, the blind, and dependent children. A fourth "category" of deserving poor—the permanently and totally disabled—was established in 1950. At no time, however, has the Federal government ever offered funds to the states to assist persons who were simply poor. American welfare systems are dominated by a philosophy which distinguishes between classes of the poor who deserve assistance (the aged poor, the blind poor, the young and dependent poor, and the totally disabled poor) and the rest, who are, at least by implication, undeserving.

Since no Federal funds have been given to states to assist persons who are merely poor, many states offer no help at all to these persons, leaving them to the tender mercies of voluntary charitable institutions or local units of government. Some states have a category for the non-categorical poor called "general assistance." On the whole, however, the welfare system has never served as a vehicle for meeting the needs of all the poor.

When the Social Security Act of 1935 was passed, its provisions for financial grants to states to assist in meeting the needs of the deserving poor were deemed to be of only temporary importance. By reason of more prominent features in the act—such as compulsory social insurance, with its benefits to retiring workers or their survivors, and unemployment insurance—it was assumed that, over time, the need for grants to the states would gradually disappear. It was not until some 10 years after World War II that it was recognized that there seemed to be a permanent "welfare population," whose numbers seemed to be growing at the same rate as the Gross National Product.

In January, 1974, a major change took place in the welfare system created 39 years earlier. The Federal government relieved the states of responsibility for financing and administering cash benefits to those poor who were aged, blind, or permanently and totally disabled. This part of the welfare program, called Supplementary Security Income (SSI), provides a uniform, national system of cash benefits to those eligible.

When the Social Security Act created the category of "dependent children," it is doubtful that even the most perspicacious observer could have foreseen what would happen. Prior to the Social Security Act, some 44 states had developed "mothers' assistance" funds with the view of meeting financial needs where the male breadwinners had been lost to the family. Recognizing the appropriateness of these programs, the Social Security Act provided assistance to children who have been deprived of parental support or care by reason of the death, continued absence from the home, or physical or mental incapacity of a parent. All of the states, using this definition, currently receive Federal funds for the resulting Aid to Families with Dependent Children program (AFDC).

Prior to the Social Security Act of 1935 and until 1960, the leading reason for women becoming the head of a family with dependent children was widowhood. By 1973, divorce or separation had become the leading reason and the number of families headed by a woman who was divorced, separated, widowed, or single has increased significantly. Beginning in the mid-1960's, there was a "welfare explosion" in AFDC cases. Between 1967 and 1971, the number of persons receiving AFDC assistance doubled, growing from 5,300,000 to 10,600,000. AFDC payments grew even faster, from \$2,200,000,000 in 1967 to \$6,200,000,000 in 1971. With the transfer of the needy aged, blind, and permanently and totally disabled to the SSI program in 1974, the AFDC families have taken on the status of the "unworthy poor" and reform, from some perspectives, is little more than an attempt to control their numbers and expenditures.

In almost all of the states, SSI and AFDC recipients are automatically eligible for Medicaid. Created in 1965 along with Medicare (a national system of prepaid health insurance for the elderly and not a part of the welfare system), Medicaid provides selected health services to the "medically indigent." Within certain Federal limitations linked to a state's grant standards for AFDC, states make their own determinations about who is medically indigent. An AFDC recipient automatically eligible for Medicaid may well receive, in this combination of cash assistance and health care vendor payments, a benefit value well above the earnings of a low-income family eligible for neither program. This intrusion on the status of the near-poor is another motivating force behind welfare reform.

The problems of the welfare system are confounded by the existence of other cash transfer programs. Some are not related to income levels. These consist of old-age, survivors, and disability insurance (OASDI); railroad retirement benefits, including disability and survivors insurance; the Federal-state unemployment compensation system; death compensation and dependency and indemnity compensation to survivors of veterans for service-connected deaths; and special benefits for disabled coal miners.

In addition to the income-tested programs already mentioned (AFDC and SSI), there are also pensions for veterans with non-service-connected disabilities; pensions for widows and children of veterans; general assistance to Indians; and assistance to Cuban refugees. There are also non-income-tested programs of an in-kind nature—Medicare, Indian health services, and housing assistance for veterans. Income-tested in-kind programs include, but are not limited to, Medicaid, health assistance for veterans with non-service-connected health needs; various U.S. Department of Housing and Urban Development programs; food stamps; and the national school lunch program.[6]

In view of the multiplicity of programs, some proponents of welfare reform believe the actual issue to be addressed is achieving a comprehensive income security program which would replace most of the existing income-tested and non-income-tested cash and in kind transfer programs.

Proposals for welfare reform

The major proposals for welfare reform can be classified as follows: improvements in the existing system; extension of in-kind assistance; work-conditioned income supplements; demogrants; and comprehensive income supplements. While each classification is clearly distinguishable from the others, they are not necessarily mutually exclusive.

● Improvements in the existing system. Those who believe poverty is in large part self-caused, or the result of disadvantages, push for reform at the simplistic level of tightening controls on eligibility and close monitoring thereafter. Computerized approaches, special investigation units, bank delivery systems, locating and collecting support from absent fathers, and diligent prosecution for fraud comprise the extent of change necessary to reform the system. While few question the necessity for improvements in the administration of the welfare system, other observers would push for changes in the existing administrative structure and funding arrangements between the Federal government and the states.

As earlier noted, the existing welfare system, except for a few states or local units of government, does not take cognizance of the non-categorical poor—i.e., to be poor is not enough to qualify for cash assistance. Proponents of program reform would mandate Federal participation with the states in a program of general assistance for needy intact families and single persons. Others want the Federal government to establish a national minimum standard of cash assistance (as in SSI), with additional Federal grants to the states to meet this standard.

A more radical proposal is to move the AFDC program into the SSI program. If this could be done, there would be a national standard for cash assistance with or without supplementation by the states. The SSI program, under Federal funds and Federal administration, would then encompass the needy aged, blind, permanently and totally disabled, and dependent children deprived of parental support.

It is possible to view the foregoing suggested improvements in the welfare system as incremental steps toward program reform. Initially, there would be a Federal standard for cash assistance established together with increased Federal funds to the states. The transfer of responsibility for the AFDC program to the SSI program would follow. If the non-categorical poor were then also added to SSI, there would exist a Federally funded and administered program of uniform cash assistance grants ~~to all those in need~~. Since the history of public welfare is largely a process of incremental development, it is not impossible, barring major reforms, that this will continue to be the path of change.

● Extension of in-kind (non-cash) assistance. Regardless of the nature of other changes, a greater use of in-kind assistance, in lieu of cash benefits, is urged by some reform proponents. Income supplements other than cash are paid over in many forms such as subsidized housing and food stamps. The built-in benefits of this approach are largely in the area of increased assurance that the poor would use government support for socially approved items. Additionally, since the market system does not always function well in providing certain goods in certain locations, in-kind assistance would assure their availability. The use of in-kind benefits could help specific industries in the national interest by increasing the demand for their products.

In-kind assistance would substitute for cash benefits for such items as food, clothing, rent, utilities, housing, and transportation. Arguments against this approach center around its demeaning features for recipients and the chaotic administrative nightmare which might result.

● Work-conditioned income supplements. Understandably fearful that any general plan of cash or in-kind assistance to all those in poverty would either encourage people to work below their potential or discourage able bodied persons from working at all, a number of work-conditioned proposals have been made: raising the minimum wage, government wage subsidies, earning subsidies ("work bonus"), and public employment programs. These proposals are addressed to the working poor and are viewed as incentives to the non-working poor.

Raising the minimum wage and extending its coverage is urged on behalf of the working poor. One can work at the present minimum wage of $2.30 an hour, 40 hours a week, 52 weeks of the year, and still have a family living below the poverty line. The results of increasing the minimum wage, however, might not be entirely beneficial. Some believe such action would result in reducing the number of available jobs—particularly for young people—and there are already large numbers of workers in legally covered sectors earning less than the minimum wage. The situation would be aggravated with extended coverage.

Wage subsidies would involve government payment of an agreed upon part of an individual's wages. A "target wage" would be established and a subsidy rate agreed upon by taking some percentage of the difference between the actual wage and the target wage. For example, assuming a target wage of $3.00 per hour, an actual wage of $2.00 per hour, and a subsidy rate of 50%, the wage subsidy would be 50 cents an hour. Opponents of this approach point out that the unanticipated result would be the depressing of wages throughout the country by reason of the availability of the government supplement.

The concept of earning subsidies (as opposed to wage subsidies) has gained some support in Congress, where it is referred to as a "work bonus." The basic thrust of the work-bonus is to supplement a family's earnings by a fixed percentage up to a given target income level. Once the target level has been reached, the subsidy would be reduced by a given percentage until it disappeared.

For example, a family's earned income would be subsidized at the rate of 10% to a target level of $4,000. Thereafter, the $400 subsidy would be reduced by 25% of any additional earnings. When the reduction reached $400, the subsidy would end. Variations of the earning subsidy concept will be noted later on in the comprehensive income supplement proposals.

Public employment, either generally or as employer of last resort, is increasingly advanced as an alternative employment opportunity for those on welfare who are able to work. If there is any agreement between the welfare reform proponents, it is on the principle of a work requirement. There are vast differences, however, about what the nature and application of a work requirement should be.

Without doubt, the most important aspect of work force participation by the poor is the presence or absence of jobs. Consequently, a national policy of full employment has been urged with a comprehensive training program to give those able to work the necessary skills consistent with market demands.

Consensus appears to be emerging to the effect that welfare recipients should be considered as consisting of two classes: those able to work and those who are not. This implies a separation of programs—one for employables and one for unemployables. The latter would be beneficiaries of the welfare system while the employables would be beneficiaries of public service jobs, job training, unemployment compensation, etc.

The Carter Administration has indicated support for separating persons in or out of the labor market. Those on welfare who are employable should be treated as unemployed, rather than as welfare recipients. It is not clear, however, into which group the AFDC mother should be placed. Some believe all AFDC mothers, unless chronically ill, should work. Others would exempt those with children under school age. Still others would leave it as a choice for the AFDC mother to make since child-rearing is a legitimate social and family obligation which should be respected and encouraged. The Carter Administration has indicated favoring a work requirement for AFDC mothers whose youngest child has reached 12 years of age.

Viewed as income maintenance, however, public employment programs have not yet helped very many persons. In 1971, public jobs under the Emergency Employment Act went to about 300,000 persons at an average salary of just over $6,000 per year. There were already 25,000,000 employed persons earning less than $6,000 in that year. Experience with government as the employer of last resort has been limited to the work programs of the Depression of the 1930's.

Two of the welfare reform proposals—demogrants and comprehensive income supplements—call for a radical restructuring of the nation's approach to poverty, with abolition in large part of the existing welfare system.

The most sweeping and least feasible of these two proposals is for the use of demogrants. A "demogrant" is a cash grant paid by the government to all persons in a specified demographic group. It could be paid to any groups (e.g., children under 18 years) or to all persons regardless of age, family status, or income. The objective of the demogrant is to redistribute income. The major problem is that a demogrant with a payment level high enough to meet the needs of 29,500,000 persons in poverty would require enormously high tax rates. The concept, however, is built into the comprehensive income supplement plans described below.

Comprehensive income supplement plans

In December, 1974, the Subcommittee on Fiscal Policy of the Joint Economic Committee, U.S. Congress, presented its recommendations for reform based on a painstaking examination of the welfare system. The proposed combination of a demogrant in the form of universal tax credits coupled with allowances for low-income families and individuals was designed to replace the existing welfare system excepting for the SSI program.[5] Shortly thereafter, in 1975, the U.S. Department of Health, Education, and Welfare presented its own recommendations for an "Income Supplementary Program" to replace SSI, AFDC, and the food stamp program.

The HEW proposal is a variation on the earnings subsidy ("work bonus") concept. Maximum cash benefits would be fixed for individuals and for families of various size and composition. "Break-even" levels at twice the level of the maximum cash benefit would be established and cash benefits paid out would equal one-half of the difference between actual income and the particular break-even level.

The most recent Washington release indicates that the Carter Administration is committed to a similar subsidy approach. For example, the payment to a family of four with two parents or to a single-parent family of four with no small children would be $2,300 a year. If the adult worked in the private sector, his payment would not be reduced until he had earned $3,800 and, after that, it would be cut by 50 cents on the dollar. If he worked in a public job, the benefit would be reduced by 50 cents on the dollar after he had earned $1,900.[6]

The comprehensive income supplement plan proposed by the Subcommittee on Fiscal Policy of the Joint Economic Committee is more complicated. In addition to combining the concept of universal tax credits with provisions for allowances to low-income families and individuals, it takes cognizance of other kinds of income beyond earnings such as subsidized housing, veterans' pensions, farm subsidies, etc. Such income serves to offset the amount of the allowances in varying degrees.

The Subcommittee's proposal featured a universal tax credit of $225 against income tax liability in lieu of the existing personal exemptions and standard deductions. If the total tax credits of a family exceed the tax liability, the unused dollars of credit would be paid to the filer. In effect, this $225 tax credit is a demogrant, available to all, and constitutes a base upon which the rest of the proposal rests.

The tax credit would be supplemented by "allowances for basic expenses" for individuals and families (excepting SSI beneficiaries). Benefit schedules were proposed for the starting year of 1977 as follows: married couple filing jointly—$2,050; head of a household—$1,225; single person—$825; dependent aged 18 or older—$825; first and second child, each—$325; third to sixth child, each—$225; with no benefit allowance for the seventh (or more) child.

For example, a couple with two children would have tax credits of $900 (four × $225) and an allowance for basic living expenses of $2,700 ($2,050 + $325 + $325), for a total of $3,600.

While the tax credits would be universal and not affected by income, the allowances would be reduced by a series of offsets, depending on kinds of income. Each earned dollar, less Social Security tax paid, would reduce the allowance by fifty cents. If the taxpayer lived in subsidized public housing, the benefit loss rate would be 80%. If income was from a veteran's pension, farm subsidy payments, or refunds from Federal income tax withholding, the benefit loss would be 100%.

Of the foregoing two comprehensive income supplement plans, it is possible the earnings subsidy ("work bonus") concept in the HEW proposal and the per capita tax credit in the Subcommittee on Fiscal Policy proposal could be combined. The "work bonus" is already familiar to Congress and the tax credit would represent an extension of the already existing earned income tax credit. No such proposal, however, seems to have developed.

In view of the complexities of the welfare system and the number of reform alternatives, it is still not clear at the national level whether continued incremental tinkering or a radical change will emerge as the Carter Administration's proposal. The target date for reform has now been set back to 1980. It is to be hoped that any plan submitted to Congress will at least provide coverage for all the poor.

Notes

[1] U.S. Department of Commerce, Bureau of the Census, *Money Income and Poverty Status of Families and Persons in the United States: 1975 and 1974 Revisions (Advance Report)*, Current Population Reports: Consumer Income Series P-60, no. 103 (Washington, D.C.: Government Printing Office, 1976), p. 1.

[2] Herbert J. Gans, "The Positive Functions of Poverty," *American Journal of Sociology*, 78 :, 1972, pp. 275-289.

[3] Committee on Income Maintenance Policy, "Policy Statement on Welfare Reform," *Public Welfare*, American Public Welfare Association, 35: 2, 1977, p. 18.

[4] Sheila B. Kamerman and Alfred J. Kahn, *Social Services in the United States* (Philadelphia: Temple University Press, 1976), pp. 539-537.

[5] *Income Security for Americans: Recommendations of the Public Welfare Study*, 93rd Congress, 2nd sess., Dec. 5, 1974.

[6] *The New York Times*, May 26, 1977, pp. A 1 and 18.

ISSUES IN WELFARE REFORM
(By Martha N. Ozawa)

A new wave of welfare reform is moving forward at a time in history when the nation needs to reevaluate both the older and the more recent approaches for assuring income to families which are unable to earn an adequate minimum income on their own. This article briefly describes various types of income-maintenance programs now in operation in the United States and several that appear worth investigating for possible adoption. It raises and discusses interrelated and often conflicting policy issues involved in evaluating proposals for new programs or reforming old ones. Finally, it discusses policy issues involved in evaluating welfare-reform proposals from a broader perspective, which is necessary in light of the increasing interrelation of various income-maintenance programs and their spill-over effects on the total income-maintenance system.

The Nixon administration succeeded partially in welfare reform when Congress enacted legislation for Supplemental Security Income (SSI) in 1972, and now President Carter seems ready to give another try toward achieving reform of the welfare system.

Interest in welfare reform is rising at a time when income-assistance (or income-tested) programs such as AFDC, food stamps, and SSI are perceived as getting out of control in terms of expenditures. Income-assistance programs began to expand faster than social insurance programs in the mid-1960s with the flourishing of the Great Society's War on Poverty. From 1965 to 1976, the annual per capita cost of income-assistance programs, in constant dollars, increased by 313 percent, in comparison with a 177 percent increase for social insurance programs.[1] The estimated total cost of income-assistance programs in 1977, $48.8 billion, is 27 percent of the nation's total

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outlay for income-maintenance purposes. This contrasts with an estimated cost of $134.2 billion, or 73 percent, for social insurance programs.[2] The increase in income-assistance payments reflects the change in economic conditions as well as policy shifts. In comparison the increase in social insurance benefit payments, especially social security benefits, reflects demographic shifts, changes in economic conditions, and liberalization of benefits.

The new interest in welfare reform also comes at a time when the nation is finding it necessary to evaluate the basic approach taken during the 1960s in the war on poverty, which shaped the direction of the various cash and in-kind programs that followed. These were developed on the basis of selectivity. The aim was to concentrate the benefits of the programs on a targeted population, with the least amount of waste in expenditures. Housing-assistance programs, Medicaid, SSI, and food stamps all followed this approach. Means tests or income tests were an integral part of the strategy. Combined with the emphasis on economic (or target) efficiency was a concern with the effects of the programs on work incentives. [illegible], these programs incorporated work-incentive features by [illegible]ing the benefit-withdrawal rate at less than 100 percent. However, it was soon recognized that when the same recipient benefited from multiple programs, each having an incentive measure, the cumulative effects of these measures were such that the recipient who increased his work effort often had to give up more in total income than his additional effort brought in. Policymakers and experts in the field faced a conceptual deadlock in the selective approach to income maintenance.[3]

Some, including myself, started worrying about the impact of growing selective programs such as SSI on universal programs such as social security.[4] The more effective SSI becomes in providing a minimum income, the more the role and value of social security are diminished. Furthermore, one of the two principal objectives of social security—social adequacy—begins to be questioned for validity.[5] The other principal objective is earnings replacement.

Welfare reform is becoming an increasingly complex process. Any proposal for initiating a new program or revising an old one needs to be evaluated in the light of multiple and often conflicting policy issues. In addition, any proposal needs to be looked at in broad perspective so that policymakers can assess its effects on the rest of the income-maintenance system.

This article will attempt to identify and discuss pertinent policy issues, show how they are related to each other, and consider their impact within the whole spectrum of income maintenance. Before discussing specific policy issues, it will be useful to categorize and describe briefly the current approaches to income maintenance. It is not the aim of the article to propose or advocate any particular policy or program.[6]

Three Basic Approaches

Income-maintenance programs can be broadly classified within three groups: demogrants, social insurance, and income assistance.

Demogrants.—A demogrant is a universal provision of a flat payment to the entire population of a country or to all who fall within a certain group, regardless of employment status or income level. Children's allowances, old-age pensions, and maternity benefits are in this category. Benefits of this type are relatively unfamiliar in the United States; however, they are becoming increasingly common in other industrialized societies. For example, sixty-two nations now provide children's allowances of various kinds.[7] During this century, the majority of industrialized nations in the West have also moved toward universal pensions for the aged—some providing a universal flat amount to each individual, others providing a flat amount as the first tier of a social security system plus a second-tier payment based on the individual's earnings.[8] Most of these nations also pay maternity benefits. In the United States, before the enactment of the Social Security Act of 1935, most states had instituted old-age pensions and mothers' pensions, but these were not demogrants, since they provided only for those who proved that they were poor.

Social insurance.—Major social insurance programs with the earnings-replacement objective are Old-Age, Survivors, and Disability Insurance (OASDI); unemployment insurance and workmen's compensation; and railroad retirement, unemployment, and disability insurance. Medicare, another major social insurance program, provides for medical care costs. Since medical care costs of the beneficiary population—the aged and the disabled—are a large portion of their living expenses, Medicare has a significant bearing on their income security.

Social insurance programs with the earnings-replacement objective have two basic characteristics: (1) eligibility for benefits depends on previous work in covered employment, and benefit levels are related, although not precisely, to previous earnings; and (2) benefits are granted when a statutorily identified hazard such as unemployment, illness, disability, retirement, or death of an insured worker occurs.

The United States spends a smaller proportion of its GNP for social insurance than do other Western societies. This is mainly because this country lacks a national health insurance program. Even for comparable existing social insurance programs, this country spends less than most other industrialized countries. For example, the United States in 1971 spent 3.42 percent of its GNP for OASDI programs. This compares with 7.59 percent of its GNP spent by West Germany, 6.32 percent by the Netherlands, and 6.03 percent by Sweden. Of nine industrialized nations reporting, only Canada and Japan spent a smaller proportion of their GNP for such programs.[9] To compare the degree of societal commitment to social welfare expenditures in different countries, one needs to include social welfare expenditures made in the private sector. For example, Japanese corporations provide extensive fringe benefits,[10] although the Japanese government does not provide social insurance programs and other social welfare programs as extensively as governments of other countries.

Income assistance.—Under this category fall AFDC, SSI, general assistance, veterans' pensions, earned income tax credit, Basic Education Opportunity Grants (BOGS),[11] Medicaid, food stamps, and housing assistance. The last three are in-kind programs but can be considered as a part of the income-maintenance system because they have a significant bearing on the financial well-being of low-income families. Of the total $48.8 billion estimated to be spent in 1977, expenditures for Medicaid will constitute by far the largest share—$17.2 billion, or 35 percent of the total.[12] All income-assistance programs involve some form of income testing and resource testing.

Since—compared with other industrialized nations—the United States spends a relatively small proportion of its GNP for social insurance programs and has no demogrant programs such as children's allowances and old-age pensions, income-assistance programs must bear a greater burden in meeting the needs of income maintenance than they do in these other countries. (Compared with those in European countries, private sectors in the United States incur a relatively large amount of expenditure for employee-welfare programs. But still, compared with public expenditures, the amount of private expenditures for social welfare purposes is relatively small in this country, except in the field of health care.)[13] And, as already mentioned, the proportion of public expenditures for income assistance versus social insurance has risen sharply in recent years.

Policy Issues in Program Proposals

Policymakers and experts in the field have developed common criteria for evaluating proposals for income-maintenance programs.

What are these criteria, and how do they relate to the policy issues of income maintenance?[14]

Adequacy.—An income-maintenance program should help a family obtain an adequate minimum income. I define this as the income below which society perceives no family income should fall at a given time in history. Of all the current income-assistance programs in the United States, only SSI explicitly provides a national minimum income. In contrast, on a nationwide basis, AFDC does not pretend to implement the principle of adequacy, and benefits under social insurance programs depend on the level of previous earnings. Thus, the criterion of adequacy cannot be implemented under social insurance unless there are supplemental programs that automatically bridge the gap between the actual benefit levels and the adequacy level.

The concept of adequacy needs to be studied not only in relation to an absolute level of minimum income but also in relation to dynamic changes in living standards. Unless the criterion of adequacy is assessed in the dynamic model, a minimum income adequate for today will become inadequate in the near future. One way to establish the level of adequate minimum income in the dynamic model is to define the minimum income as a percentage of the median family income. Since the poverty-line income defined by the Social Security Administration (SSA) is adjusted every year to account only for the cost-of-living increase and not for the real economic growth, the SSA poverty-line income has become a smaller percentage of the median family income over the years.[15]

Equity.—There are two kinds of equity. *Horizontal equity* requires that families of the same size who have the same degree of economic deprivation should receive the same income-assistance payments. *Vertical equity* requires that, even though families are of the same size, those having a greater income need should receive a larger assistance payment. In the case of social insurance, vertical equity requires that those who earned more during their working lives should receive larger benefits when they retire.

At present, the principle of equity is implemented loosely in income-assistance programs. For example, there is wide interstate variation in AFDC payments—with the differential in payments far exceeding the differential in living costs among the various states. Thus, families of the same size with the same degree of income need receive different amounts of assistance payments, depending on where they live. This is a violation of horizontal equity. As of June 1976, basic annual payment levels for a family of four ranged from $720 in Mississippi to $5,196 in Oregon and $6,168 in Hawaii.[16] The preliminary findings of my research show that three independent variables associated with state characteristics mainly account for the difference in state maximum payments. They are, in order of importance in explaining the proportion of variance in maximum payments, (1) the percentage of nonwhite population, (2) per capita personal income, and (3) tax effort. These three variables combined explain 64 percent of the variance in state maximum AFDC payments.[17] Further, assistance payments under different programs vary within states. Families on general assistance generally receive less than those on AFDC, who in turn may receive less than those on SSI, again violating horizontal equity. President Carter's recent welfare-reform proposal attempts to correct the horizontal inequity by consolidating the AFDC, SSI, and food stamp programs into a national program called "A Program for Better Jobs and Income."[18]

The principle of vertical equity dictates that under an income-tested program those who need more should receive more. This principle is often violated in the food stamp program—not in policy but in its implementation. In principle, the net worth of food stamps is inversely related to the level of family income. But many families on AFDC are too poor to buy food stamps. (The program requires that AFDC families spend a certain specified amount of income to buy food stamps; the required amount is often too large for AFDC families to bear.) Thus, many of those who need food stamps most are not taking advantage of the program. President Carter's proposal eliminates the vertical inequity involved in the food stamp program by cashing out food stamps and including their net worth in cash payments.

It is interesting to note that a children's allowance program—which is a type of demogrant—would simultaneously implement both horizontal and vertical equity in a unique way if the allowances were taxable. Children's allowances redistribute income from childless families to families with children, and the latter presumably are in greater financial need than the former. Thus, income redistribution through children's allowances implements horizontal equity. The taxing of these allowances takes away a part of them from financially able families. This implements vertical equity.

Economic efficiency.—Economic efficiency requires that assistance payments be concentrated on a targeted population. For example, 100 percent efficiency would be obtained if every $1 of public outlay for an income-assistance program resulted in a $1 gain by the poor.

However, economic efficiency does not operate so neatly and ideally that 100 percent efficiency can be attained in implementing an actual program. In most income-maintenance programs, the criterion of efficiency is entangled with two other criteria, adequacy and work incentives. If work incentives are to be preserved, the benefit-withdrawal rate must be set at less than 100 percent.[19] Thus, a program with a work-incentive feature must compromise either the criterion of adequacy or that of economic efficiency. For example, an income-maintenance program that provides an adequate minimum payment—say, poverty-line income—and incorporates a benefit-withdrawal rate of less than 100 percent must pay benefits to both pretransfer poor and pretransfer nonpoor families up to a break-even point. Thus, it is economically inefficient. On the other hand, if such a program attempts to target benefits solely to the posttransfer poor and incorporates a benefit-withdrawal rate of less than 100 percent, then the basic benefit level has to be less than the poverty-line income, thus undermining the criterion of adequacy.

Children's allowances appear at first glance to be less efficient economically than income-assistance programs such as AFDC and SSI, since these allowances do not involve income testing. However, in general, families with children are presumed to be in greater financial need than childless families because a larger income is required for their support. Therefore, children's allowances are, in effect, targeted to financially needy segments of society. (The concept of presumptive need applies equally to the beneficiary of social insurance programs such as OASDI and unemployment insurance.)[20] If children's allowances are taxable, income testing is in effect incorporated in an indirect way, enhancing the criterion of economic efficiency even further. (The same line of argument applies to taxable old-age pensions.)

It should be noted that economic efficiency does not necessarily bring about the redistribution of a greater amount of income to the poor. Both the rate of economic efficiency and the total expenditures for a program have to be considered in calculating its actual impact. Social security (OASDI), although less economically efficient, in fact redistributes more money to low-income families than does any income-assistance program.[21] This comes about because the expenditures for social security are so much larger.

Work incentives.—Most income-assistance programs include work incentives because policymakers and the public in general believe that such programs should not discourage people from working. Whether work incentives are necessary is a debatable point. Empirical findings of an experimental project involving a negative income tax indicate that low-income families generally keep working even when they are provided with income supplements.[22] Programs that in the main are free from the work-incentive question are those that provide income assistance regardless of the employment status of the head of the household or the family's income level. Children's allowances and universal old-age pensions come closest to not involving the incentive question.

Although demogrants such as children's allowances and old-age pensions affect incentives to work of beneficiaries less adversely than

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an income-assistance program does, they may affect the incentives to work of taxpayers more adversely; as demogrants typically involve a greater magnitude of income redistribution, they require a greater net increase in taxes to finance them.

The work-incentive measure incorporated in SSI is considered an improvement over the one in AFDC. Under SSI, the first $20 of unearned income, the first $65 of earned income, and one-half of the remaining earned income are disregarded in calculating monthly assistance payments. Under AFDC, the first $30 of earned income and one-third of the remaining earned income are disregarded in calculating monthly assistance payments. The program also allows the recipient to deduct work expenses and child-care costs from income when AFDC payments are calculated.

One ought to be aware that the differential in benefit-withdrawal rates of SSI (50 percent) and AFDC (67 percent) is rather misleading. The majority of SSI recipients also benefit from social security programs and other social welfare programs which have their own benefit-withdrawal rates incorporated in them. Furthermore, if the recipient of multiple benefits increases his work effort, he has to pay payroll taxes and often federal and state income taxes. The effect of this is that the composite benefit-withdrawal rate applicable to a person who receives social security benefits and SSI payments while earning $4,820 a year reaches as high as 95 percent.[23] This means, for example, that when a person earns $1 more, he increases his net income by only $0.05. This happens because each income-tested program reduces benefits at a fractional rate as earnings increase; furthermore, the worker has to pay payroll taxes (5.85 percent) and often federal and state income taxes as well. On the other hand, the recipients of AFDC, in calculating assistance payments, are allowed to deduct work and child-care expenses in addition to the earned-income deductions, as mentioned in the previous paragraph. Because of this, the composite benefit-withdrawal rate, even after payroll taxes and federal and state income taxes are taken into account, actually declines to as low as 50 percent for a family of four.[24]

As mentioned earlier, when a family benefits from multiple income-tested programs, the combined incentive features become a composite disincentive. This paradoxical effect is felt, for example, by a family that attempts to earn extra income while simultaneously benefiting from AFDC, veterans' pensions, food stamps, and Medicaid. It is estimated that between 10 and 25 percent of the recipient households benefit from five or more different income-assistance programs.[25]

Medicaid introduces a more serious kind of work disincentive called the "notch problem." This problem is created when a program suddenly cuts off all benefits once family income reaches a certain level.

Under Medicaid, a family becomes ineligible for medical care when it leaves AFDC or SSI or, if the family is "medically indigent," when its income, after deducting medical expenses, exceeds 133 percent of the state AFDC payment level. Such regulations may encourage families on Medicaid not to increase their income beyond the cutoff level: If they do, they will lose medical care altogether. It is difficult, however, to eliminate the "notch problem" involved in Medicaid, because medical care services cannot be reduced gradually as family income increases.

It is important to note that the advantage of having a low benefit-withdrawal rate in a demogrant program is destroyed in part when multiple income-tested programs supplement it in sequence. The relative differential in benefit-withdrawal rates of a demogrant program and an income-assistance program converges when each of them is supplemented by multiple cash and in-kind transfers in sequence. As a result, the advantage of a demogrant over an income-assistance program, in terms of work incentives, weakens when both are supplemented by other income-tested programs.

Stigma and self-image of beneficiary.—Ideally, an income-maintenance program should not impose social stigma or destroy the beneficiary's self-image, and it is generally believed that an income test or a means test tends to do just that. Thus goes the argument that social insurance programs or demogrants, which are not income tested, should be preferred to income-assistance programs. But some argue that income testing per se is not at issue but, rather, how income testing involving the poor is performed.[16] Income testing involving the poor through face-to-face, case-by-case investigation may be stigmatizing, but income testing submerged within income tax returns will not be. Aside from such arguments, one can speculate that the concern about social stigma may be a product of our middle-class value system. Low-income families who daily have to struggle and survive in undesirable and uncertain working conditions may find an income-assistance program an acceptable alternative source of income. All these speculations and questions need to be tested by empirical research.

Antipoverty effectiveness.—Two indicators measure the degree of antipoverty effectiveness of a given income-maintenance program: (1) the proportion of pretransfer poor families who are made nonpoor by the receipt of program benefits, and (2) the proportion of aggregate income deficit offset for these pretransfer poor families by the program's benefits.[17] A program that is economically efficient in concentrating benefits on pretransfer poor families and does not provide spillover benefits to pretransfer nonpoor families can efficiently offset a portion of the aggregate income deficit of poor families, but it cannot lift a single family above poverty-line income. In contrast, the provision of a basic payment (the level of benefit provided to a family with no income of its own) equivalent to a poverty-line income, with the benefit-withdrawal rate of 50 percent and hence with the break-even point of twice the poverty-line income, will pay spillover benefits to pretransfer nonpoor families, but it will also bring all the pretransfer poor out of poverty. Spillover benefits to the pretransfer nonpoor will be inevitable, though lower, even when the basic payment level is lower than the poverty-line income as long as the break-even point is higher. In the process, some pretransfer poor families and individuals are pulled out of poverty. Thus, for a program to be effective in bringing poor families out of poverty, it must not only have a high rate of target efficiency but also must be large enough in scope to provide spillover benefits for pretransfer nonpoor families.

These ideas are consistent with research findings. Generally, social insurance programs are more effective in bringing pretransfer poor families out of poverty. More specifically, however, the degree of antipoverty effectiveness in income-maintenance programs varies with the demographic characteristics of beneficiary families. One study shows that social insurance programs have been more effective in bringing out of poverty families headed by the aged than those headed by the nonaged. It indicates, on the other hand, that income-assistance programs have been more effective in bringing out of poverty families headed by the nonaged, especially those with a nonaged female head.[28] Another study shows that social security is a powerful agent for lessening the degree of income inequality among beneficiary families headed by the aged; and public assistance has a similar effect among recipient families headed by a nonaged female.[29] Such differential impacts reflect different demographic groups that a particular social insurance or public assistance program is designed to cover, the scope of expenditures involved in each program, and the degree of selectivity (or concentration on low-income families) involved in each program.

The policy question here is whether it is desirable to continue to depend heavily on income-assistance programs for bringing families headed by the nonaged out of poverty. The selective approach used in income-assistance programs seems to be reaching the limit of tolerance not only in terms of the large government expenditures involved but also in terms of enormous work disincentives created by simultaneous benefits from multiple income-tested programs. Furthermore, the proliferation of income-tested programs is creating horizontal inequity, because not all families with the same level of need benefit from the same set of income-tested programs. President Carter's welfare-reform proposal attempts to improve the situation by cashing out food stamps.

Effects on the incentive to save.—It is generally argued that no income-maintenance program should discourage private efforts to save for future rainy days. Thus, policymakers are interested in developing programs that do not discourage these efforts.

Income-assistance programs such as AFDC and SSI provide benefits only when a family has practically exhausted its private resources. Thus, applicants often must "spend down" available resources to be eligible for assistance payments. On the other hand, social insurance provides income to eligible families regardless of the amount of accumulated savings or other types of resources. Thus, social insurance in principle does not discourage saving.

The situation is more complex for families that benefit from both income-assistance and social insurance programs. The case in point is a recipient of both SSI and social security. Social security does not consider the amount of savings in establishing eligibility for benefits or calculating the amount of the benefit. On the other hand, SSI limits the individual's resources to $1,500 and a couple's to $2,250. For a social security beneficiary to supplement a meager benefit with SSI, he has to "spend down" his resources to the stipulated amount.

The founders of social security clearly did not intend that the program should in any way supersede private efforts to save or that it should modify to more than a minor degree the nation's distribution of wealth and income.[30] Nevertheless, recent research shows that social security does decrease private efforts to save and does substantially change the distribution of total wealth—that is, net worth plus social security wealth. The same study finds, however, that when the current value of future social security benefits is included in total wealth the distribution of wealth is less concentrated.[31] These findings imply that social security on one hand "democratizes" wealth but on the other impedes the capital formation necessary for economic growth. Research findings on the effect of social security on private saving, however, are not conclusive. The 1969 Brookings study by Pechman, Aaron, and Taussig shows that private savings expressed as a percentage of disposable income has not declined since the 1950s, even though social security contributions have increased enormously.[32]

Administrative efficiency.—On the basis of decades of federal experience in income-maintenance programs since the depression of the 1930s, several generalizations on administrative issues can be made: (1) national administration of a program can be simpler than administration under a state-federal partnership; (2) administration of benefits based on a case-by-case investigation of income and resources—that is, a means test—is more complicated than, for example, a demogrant; and (3) administration of a program is simpler when it has the single objective of providing financial aid than when it has additional objectives such as rehabilitation or social control. Thus, the administration of a social insurance program is simpler and requires a smaller percentage of expenditures than an income-assistance program.

The criterion of administrative efficiency should be evaluated not only in relation to a single program but also with respect to the multiple programs serving the same beneficiaries. An example here is the administration of SSI and social security programs by the Social Security Administration. Unless states choose otherwise, two monthly checks (a yellow check for SSI and a green check for social security benefits) are sent to beneficiaries by the same agency. Better coordination and integration of these programs should be possible.

Since the policy issues involved in specific programs are often interrelated or conflicting, policymakers need to evaluate each program proposal, weighing one criterion against another.

Welfare Reform in Broader Perspective

The income-maintenance system has become a significant part of the economic life of the nation. Therefore, the broad implications of any welfare proposal should be evaluated as well as its merits in meeting particular needs. Furthermore, the interaction between income-maintenance provisions and the general economy should be examined.

Singularity versus plurality.—The interest of the welfare-reform movement in the 1960s and 1970s has revolved around ways to make income-assistance programs such as AFDC more uniform across the nation and ways to consolidate various programs into a single noncategorical one. Enactment of SSI in 1972 partially achieved interstate uniformity by providing national standards for basic benefits. The SSI also consolidated three former state-administered categorical programs: Old-Age Assistance (OAA), Aid to the Blind (AB), and Aid to the Permanently and Totally Disabled (APTD). Politicians and academicians seem to be increasingly interested in nationalizing and decategorizing income-assistance programs even further. The interest of many in a negative income tax (NIT) plan reflects this trend. This approach to welfare reform might be called the "bottom-up singular strategy."

President Carter's welfare-reform proposal follows the bottom-up singular strategy. His proposal involves two separate NIT derivatives but does not use the tax system. One is called "the income support program for the nonworking poor" and the other "the work benefit program for the working poor." Both are further supplemented by earned-income tax credits. His plan attempts to reform the welfare system by providing these national NIT programs, without seriously coordinating with or reforming social insurance programs, introducing a new type of income-maintenance program such as universal old-age pensions and children's allowances, or improving minimum wages.

The bottom-up singular strategy presents at least two problems. First, meeting specific needs and circumstances of various family groups is difficult under a single, gigantic program such as a national NIT plan. To illustrate, if an NIT plan incorporating an incentive measure lumps together the working poor and the nonworking poor, it will be hard to provide an adequate minimum income to the nonworking poor without making the break-even point so high that an intolerably large number of families will be eligible for assistance payments. By treating the two categories of poor under two separate programs, the Carter plan escapes this dilemma. His plan succeeds in providing an adequate minimum income to those who are presumed to be unable to work (the aged, the blind, the disabled, and heads of single-parent families with small children) and a high level of work incentives to those presumed to be able to work. Also, by treating the two categories of poor separately, the Carter plan incurs fewer expenditures than a single NIT plan covering all the poor.[33]

Another problem is that this strategy ignores the inherent limits of the role and scope of income-assistance programs in the income-maintenance system. A basically unplanned economy like ours, which can encourage work but cannot enforce it, inevitably has a hierarchical order in its income-maintenance system. This is, for income-assistance programs to be tolerable in scope and nature, social insurance programs which are related to previous wages must be optimally effective in providing income to eligible families. Likewise, for social insurance programs to be a viable vehicle for providing adequate income, wage levels and job security must be adequate.

Policymakers should look at the various components of the income-maintenance system in such a hierarchical order. That is, they might consider the "top-down pluralistic strategy" to welfare reform. If one takes this approach, creating jobs, increasing minimum wages and job security, and improving social insurance programs would become important in welfare reform, as well as streamlining categorical income-assistance programs.

Economic well-being of children.—Several income-maintenance programs (e.g., AFDC, SSI, and social security) are concerned with the economic well-being of children. But the government's current ways of providing income support for children create the major stumbling block to systematic welfare reform. An income-maintenance system comprised only of social insurance and income-assistance programs has a built-in constraint against providing adequately for families with children. First, minimum wages cannot be developed that will provide adequate income for families of all sizes. Social insurance programs having benefits related to previous earnings cannot provide for a large number of dependents in addition to the insured worker without jeopardizing two criteria, equity and work incentives. Also, assistance payments under an income-assistance program cannot depart too much from minimum wage levels and social insurance benefit levels without jeopardizing these two criteria.

The inherent constraint results from the fact that the government tries to provide for children through programs directly or indirectly related to the employment status or the wage level of the head of the household. One way to eliminate this constraint is for the government to develop an income-support program for children under which benefits are provided independently of the employment status or the wage level of the head of the household. Some type of demogrant—children's allowances or cashable tax credits for children—might be an option worth considering.

Balancing various types of income-maintenance programs.—One source of political discontent with current income-maintenance programs appears to be the growing expenditures for them. When income-assistance programs are overburdened in relation to other types of income-maintenance programs, they tend to provide benefits to too large a number of families whose heads are either working or deemed employable, thus creating a disproportionate amount of political passion. The smaller the scope of income-assistance programs, the less political controversy will be associated with them. That is, income-assistance programs are politically most acceptable when they are truly residual.

Under President Carter's proposal, some of the current welfare mothers and all unemployed fathers covered under AFDC-UP (Unemployed Parents) will be required to work. The plan will also cover a sizable number of working families, some nonpoor, under either the work-benefit program, the earned-income tax credits, or both. Thus the amount of assistance payments to those currently on AFDC may be lower in some cases than at present, but a greater number of families are expected to be included. As a result, the Carter plan, in an effort to streamline the welfare system, will probably enlarge the scope of it, possibly creating political controversy.

If my assessment is accurate, policymakers should develop the income maintenance system so that there will be a healthy balance among various types of programs.[14] They ought to recognize the desirability of strengthening social insurance programs and minimum wages. They might also explore the desirability of introducing another type of income-maintenance program using the demogrant approach. The introduction of universal children's allowances or cashable tax credits for children, which was mentioned briefly above, should assist in attaining at least three objectives: (1) it could help develop healthy hierarchical relationships between minimum wages, social insurance programs, and income-assistance programs; (2) it could lessen the burden placed on income-assistance programs in providing for the poor, thus making these programs truly residual within the system of income maintenance; and (3) together with other types of income-maintenance programs, it could provide adequate income to eligible families of all sizes without creating work disincentives.

Employment and income maintenance.—The vitality of an income-maintenance system depends on healthy conditions of employment. For a person to receive an adequate benefit from a social insurance program, he must have been employed for a certain period of time and earned a minimum amount. Similarly, to maintain income-assistance programs at a tolerable residual level, those who are employable must be able to earn adequate income through work.

Government data indicate that in 1971, for example, earnings were the most important source of income even for families with an annual income of $4,000 or less. Earnings constituted 37.1 percent of the total money income of these families.[35] On the other hand, these families, who constituted 13.0 percent of all families, received only 1.2 percent of the total aggregate earnings. In fact, the share of earnings of the bottom fifth of workers seems to have been declining. A study by Henle shows that the share of the bottom fifth of all male workers decreased from 2.75 percent in 1959 to 2.15 percent in 1970. In contrast, the share of the top fifth of all male workers increased from 42.80 percent to 44.95 percent during the same period.[36] That study also shows that the share of the bottom fifth of all year-round, full-time male workers slightly increased during the same period. These findings seem to indicate that one reason for the declining share of the bottom fifth of male workers is that their rates of unemployment and subemployment had increased over the years.

Policymakers must recognize that there is a relationship between employment and the role of an income-maintenance system. Income-maintenance programs utilizing a politically tolerable magnitude of public expenditures can provide an adequate income for targeted populations of families only when employment provides adequate income for those who are able and willing to work.

Political considerations.—So far in this article the framework for understanding and evaluating welfare-reform proposals has been developed with a focus on economic and social policy variables. However, the answer to the question of what kind of welfare/income redistribution system this country eventually will have depends heavily on the political climate of the time.

First of all, the question of what kind of society the public aspires to in the future needs to be addressed. Does it wish to have forever a society in which taxpayers and recipients of income subsidies are clearly exposed and identified? A heavy reliance on the income-assistance approach tends to perpetuate that condition. Or, in contrast, does it wish to have a society in which all contribute in some way and all may benefit from income-redistribution programs at some time in their lives, thus creating the notions of interdependence and mutual help? An increased reliance on social insurance and demogrants would help create such a society. In economic terms, of course, the income-assistance approach is cheaper than the other two, at least in the short run.

Related to the questions above is whether the public is ready to shift from the traditional categorization of deserving and undeserving poor to a new categorization of nonworking and working poor, as the Carter plan proposes. Under the new categorization, all those in need would receive some type of income subsidy, thus enhancing the principle of horizontal equity. Under the Carter plan, which uses the new categorization, nobody will be so undeserving as to be ineligible for any income subsidy. Is the public ready to give up the political scapegoat called "the undeserving poor"?

Another political issue is the extent to which the public wishes to and can provide for those in need from private sources. If the public encourages private approaches, the demand for fringe benefits provided by employers is bound to increase. But even then the government will be called upon to provide a minimum adequate income to those who are not employed by firms able to provide benefits.

A third political issue is whether state legislatures are ready to lose political power by letting the federal government continue its takeover of both financial and administrative responsibilities for income-maintenance and other social welfare programs. According to Handler, states tend to retain their power over income-assistance programs as long as such programs deal not only with the financial need of the recipient but also with the community's need to control the social behavior of the recipient.[37] According to this theory, the public needs to keep a close eye on the recipient when it wishes to impose its values on him. Handing over financial and administrative responsibilities to the federal government would make the political process that imposes the community's values on the recipient more difficult, if not impossible. Recent trends in nationalizing income-assistance programs—SSI in 1972 and the current welfare-reform proposal made by President Carter—would weaken the states' politcal power to shape and run programs for the poor. State legislatures may resist such a movement, despite the fiscal relief it would provide.

All these political considerations and many more, as well as the economic and social policy aspects discussed earlier, will influence the decision-making process that will shape the future of the income-maintenance system in the United States.

Notes

1. Alfred M. Skolnik and Sophie R. Dales, "Social Welfare Expenditures, Fiscal Year 1976," *Social Security Bulletin* 40, no. 1 (January 1977): 9, table 2.

2. U.S. Department of Health, Education, and Welfare, Office of Income Security Policy, Assistant Secretary for Planning and Evaluation, "An Overview of the Income Security System" (Washington, D.C.: Department of Health, Education, and Welfare, n.d.).

3. Robert J. Lampman, "Scaling Welfare Benefits to Income: An Idea That Is Being Overworked," *Policy Analysis* 1, no. 1 (Winter 1975): 1–10; Martha N. Ozawa, "Four More Years of Welfare Nightmare?" *Public Welfare* 31, no. 2 (Spring 1973): 6–7.

4. Martha N. Ozawa, "SSI: Progress or Retreat?" *Public Welfare* 32, no. 2 (Spring 1974): 33–40.

5. For further discussion, see Martha N. Ozawa, "Individual Equity versus Social Adequacy in Federal Old-Age Insurance," *Social Service Review* 48, no. 1 (March 1974): 24–38.

6. I have presented and argued for my own comprehensive proposals elsewhere; see, e.g., the following: Martha N. Ozawa, "Redistribution and Social Insurance," in *Jubilee for Our Times*, ed. Alvin L. Schorr (New York: Columbia University Press, 1977), pp. 162–77; "Welfare and National Economic Policy," in *Social Welfare Forum, 1973* (New York: Columbia University Press, 1974), pp. 91–102; "SSI: Progress or Retreat?"; and "Family Allowances and National Minimum of Economic Security," *Child Welfare* 50, no. 6 (June 1971): 314–16.

7. James C. Vadakin, *Children, Poverty, and Family Allowances* (New York: Basic Books, 1968), pp. 45–55.

8. For further discussion, see Margaret S. Gordon, "The Case for Earnings-related Social Security Benefits Restated," in U.S. Congress, Joint Economic Committee, *Old Age Income Assurance, Part II: The Aged Population and Retirement Income Programs* (Washington, D.C.: Government Printing Office, 1967), pp. 312–19.

9. Max Horlick, *National Expenditures on Social Security in Selected Countries, 1968 and 1971*, Research and Statistics Note no. 29-1974, DHEW Pub. no. (SSA) 74-11701 (Washington, D.C.: Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, October 18, 1974).

10. For understanding the interrelation between transfer payments by relatives, private industries, and the government, see Robert J. Lampman, "Transfer and Redistribution as Social Process," in *Social Security in International Perspective*, ed. Shirley Jenkins (New York: Columbia University Press, 1969), pp. 29–54.

11. The BOGS program was enacted in 1972 to benefit low-income postsecondary students. Students of any age may qualify for a grant if they are enrolled at least half time in an accredited school which requires a high school diploma for admission. An estimated 1.9 million persons will receive an estimated $1.8 billion in BOGS payments in fiscal 1977. See Department of Health, Education, and Welfare (n. 2 above).

12. Ibid.

13. Skolnik and Dales (n. 1 above), p. 17, table 10.

14. See U.S. Department of Health, Education, and Welfare, Office of Income Security Policy, Assistant Secretary for Planning and Evaluation, "Income Security System

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Purposes, Criteria, and Choices," Welfare Reform Analysis Series, Briefing Paper no. 2 (Washington, D.C.: Department of Health, Education, and Welfare, February 14, 1977); Ozawa, "Family Allowances and a National Minimum of Economic Security"; and Scott Briar, "Why Children's Allowances?" *Social Work* 14, no. 1 (January 1969): 7–9.

15. In 1959, the official poverty-line income represented about one-half of the median income of all Americans. But by 1974, the poverty threshold for an urban family of four persons had dropped to just over one-third of median family income. See Winifred Bell, "Family Structure and Poverty: A Collision Course," in *Welfare Policy*, by Martha N. Ozawa, Alvin L. Schorr, and Winifred Bell (New York: New York University, Graduate School of Social Work, Center for Studies in Income Maintenance Policy, 1975), p. 35.

16. U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, Office of Information Systems, National Center for Social Statistics, *Aid to Families with Dependent Children: Standards for Basic Needs, State Maximum and Other Methods of Limiting Money Payments, Federal Matching Provisions under the Social Security Act, July 1976*, DHEW Pub. no. (SRS) 77-03200, NCSS Report D-2 (7/76) (Washington, D.C.: Government Printing Office, February 1977).

17. Martha N. Ozawa, "An Exploration into States' Commitment to AFDC" (unpublished manuscript available from the George Warren Brown School of Social Work, Washington University, St. Louis, Missouri 63130). In this study, data for the states of Hawaii and Alaska were excluded.

18. President Carter's welfare message to Congress, August 6, 1977.

19. The benefit-withdrawal rate means the rate of fractional reduction in benefits as earnings increase. E.g., when a program reduces benefits by $1 for $1 of additional earnings, as done in the AFDC programs before 1967, the benefit-withdrawal rate is 100 percent.

20. As social insurance programs provide benefits based on presumptive need, they do not involve income testing. The programs presume the worker to be in financial need once he encounters a risk stipulated under the law such as retirement, unemployment, death, and disability. This does not mean, however, that social insurance programs provide an adequate minimum income for all beneficiary families.

21. Martha N. Ozawa, "Income Redistribution and Social Security," *Social Service Review* 50, no. 2 (June 1976): 209–23; Sheldon Danziger, "Income Redistribution and Social Security: Further Evidence," ibid., 51, no. 1 (March 1977): 179–84.

22. David Kershaw and Jerilyn Fair, *The New Jersey Income-Maintenance Experiment*, vol. 1, *Operations, Surveys, and Administration* (New York: Academic Press, 1976), pp. 20–21.

23. Michael K. Taussig, "The Social Security Retirement Program and Welfare Reform," in *Integrating Income Maintenance Programs*, ed. Irene Lurie (New York: Academic Press, 1975), p. 221, table 8.1.

24. Leonard J. Hausman, "Cumulative Tax Rates in Alternative Income Maintenance Systems," in Lurie, p. 44, table 2.1.

25. Department of Health, Education, and Welfare (n. 2 above); and U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Public Income Transfer Programs: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt: A Study*, Studies in Public Welfare, Paper no. 1, 92d Cong., 2d sess., April 10, 1972 (Washington, D.C.: Government Printing Office, 1972), pp. 28, table 9; 30, table 10.

26. Lewis Meriam, *Relief and Social Security* (Washington, D.C.: Brookings Institution, 1946), p. 841.

27. The term "poor" means those who fall below the official poverty-line income established yearly for each family size by the Social Security Administration. The poverty-line income is further refined to be applicable to family heads of different sexes and ages. E.g., the poverty-line income for a nonfarm family of four persons was $5,820 in 1976. The poverty-line income is the amount thought necessary for a family in the United States to have a minimum standard of living. In this instance, the concept of poverty is absolute. On the other hand, the concept of poverty can be relative. In comparison with poor people in other countries or in earlier years, poor people in the United States are relatively less poor. Thus, the concept of poverty may be interpreted as absolute or relative, depending on the point of reference for comparison.

28. Michael C. Barth, George J. Carcagno, and John L. Palmer, *Toward an Effective Income Support System: Problems, Prospects, and Choices* (Madison: University of Wisconsin Institute for Research on Poverty, 1974), pp. 26, table 5; 28, table 6.

29. Danziger, p. 179, table 1.

30. Edwin E. Witte, *Social Security Perspectives* (Madison: University of Wisconsin Press, 1962), pp. 11, 111.

31. Martin S. Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy* 82, no. 5 (September/October 1974): 905–26; "Social Security and Private Savings: International Evidence in an Extended Life Cycle Model," in *The Economics of Public Services, Proceedings of a Conference Held by the Economic Association at Turin, Italy*, ed. Martin S. Feldstein and Robert D. Inman (London: Macmillan Press, 1977), pp. 174–205, and "Social Security and the Distribution of Wealth," *Journal of the American Statistical Association*, Applications Section, 71, no. 356 (December 1976): 800–7.

32. Joseph A. Pechman, Henry J. Aaron, and Michael K. Taussig, *Social Security Perspectives for Reform* (Washington, D.C.: Brookings Institution, 1968), p. 186.

33. Under the Carter plan, the break-even point for a given family size is the same for both the working and nonworking poor, providing, however, a lower basic payment to the working poor. The basic payment continues to be provided without deduction until the family earnings reach a certain level. E.g., a family of four continues to receive $2,300 a year until its earnings reach $3,800 a year. For further discussion on the Carter plan, see Martha N. Ozawa, "Anatomy of President Carter's Welfare Reform Proposal," *Social Casework*, vol. 58, no. 12 (December 1977), in press.

34. "Healthy" in the sense that other types of income-maintenance programs as well as minimum wages and jobs are maximized in their effects on preventing poverty, redistributing income to the poor, and assuring an adequate minimum income to all.

35. Ozawa, "Income Redistribution and Social Security," p. 214, table 2. In this table, "families" includes both families and persons.

36. Peter Henle, "Exploring the Distribution of Earned Income," *Monthly Labor Review* 95, no. 12 (December 1972): 20, table 4.

37. Joel F. Handler, *Reforming the Poor: Welfare Policy, Federalism, and Morality* (New York: Basic Books, 1972), pp. 58–71.

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Welfare Reform and the Liberals

Leslie Lenkowsky

ON JUNE 22, 1978, Speaker of the House Thomas P. O'Neill announced that due to the lack of time remaining in the 95th Congress, further consideration of welfare reform would have to be postponed. Thus ended the Carter administration's first attempt to overhaul the domestic program which most Americans would place at the top of their lists of wasteful and ineffective public services. Though put forth with all the fanfare customary for a major initiative, including a televised address, the President's proposed Program for Better Jobs and Incomes (PBJI) lived less than a year and died without ever having been debated by either house of Congress. Even Richard Nixon's ill-fated Family Assistance Plan (FAP), proposed almost a decade earlier, had come nearer enactment.

This, despite the fact that PBJI enjoyed several apparent political advantages that FAP lacked. In the first place, the White House was now inhabited by a Democrat whose concern for the minorities and the poor had played an important part in his winning the Presidency. The key agencies—the Departments of Health, Education, and Welfare and of Labor—were staffed by people profoundly committed to reforming welfare, people who had, in truth, thought about little else during the eight-year Republican interregnum. By almost any measure, the 95th Congress was more liberal than its predecessors, and, of course, it was controlled by the President's party, and was, therefore, presumably willing to share credit with the administration for what would surely be hailed as a crowning achievement in social policy. Finally, in a striking bit of political irony, the Senate Finance Committee, which had been the major legislative stumbling block a decade earlier, now included FAP's most influential proponent, newly-elected Senator Daniel Patrick Moynihan of New York, who chaired its Subcommittee on Public Assistance.

In the event, Moynihan's presence availed little, for PBJI perished in the House of Representatives. Indeed, it was not even considered on the House floor, nor in any of the three standing committees that share jurisdiction over such a far-reaching and complex piece of legislation. For by the time it emerged from the ad-hoc subcommittee that Speaker O'Neill convened to review it, the price tag had risen well above $20 billion. With Proposition 13 only recently having passed, and with the "Kemp-Roth" federal-tax-reduction juggernaut already gathering momentum, this was too much.

Despite claims that a consensus behind a somewhat scaled-down proposal was beginning to emerge just as O'Neill postponed further consideration of PBJI, in fact the prospects for welfare reform in the 96th Congress appear even dimmer. This is partly because President Carter's determination to hold down federal spending means that adding any large new program will force the reduction of existing programs and thus elicit the opposition of those who benefit from them. No nascent coalition for welfare reform is apt to withstand its members' determination to save their favorite projects from such cutbacks.

Of far larger significance, however, is the sorry state of the beliefs and goals that have guided the efforts of liberals to reform the welfare system. Over the past decade, liberals have increasingly come to think of welfare not as a means of fending off starvation among the destitute, or even as a means of keeping a roof over the heads and clothes on the backs of young children with no working parent, but rather as a mechanism for redistributing income. To be sure, some such redistribution, as wealthier citizens are taxed to assist poorer ones, is one of the consequences of the welfare system. But that is not to say that redistribution is its aim or that reforming the system demands fealty to an abstract conception of individual equity. Yet liberal insistence that it does and must played a major role in defeating FAP and a still larger one in killing PBJI. Far from being political advantages, the presence of a Democrat in the White House, of ardent reformers in the agencies, and of liberals in the Congress all but assured that the administration's ambitious proposal would be stillborn. And so long as liberal ideas

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about welfare reform remain unchanged, a similar fate will befall any similar initiative.

The debate over welfare reform has become inseparable from the issue of poverty and how to reduce or eliminate it. In the past, most liberals shared the general American view that the poor need no more than opportunities to advance to better circumstances. They differed from conservatives mostly in favoring more extensive public programs to provide education, job training, and other services which they thought would accelerate this movement. Welfare was useful mainly insofar as it permitted those who *could not* support themselves—the old, the young, and the infirm—to receive some minimal level of subsistence. But it could also do harm if it produced dependency, broken homes, or other conditions that might hinder the social mobility of the poor. Economic growth and opportunity, not welfare, were the real cures for poverty.

But as the nation prospered in the 1950's, the poor seemed to remain poor. Another remedy was advanced: since what the poor lacked most was money, providing them with more income came to be seen as a simple, efficient, and effective way of fighting poverty. A growing economy alone would not suffice; nor would educational and other social services, which turned out to have little effect in increasing earnings anyway. In this context, the trouble with welfare was that it was inadequate and ill-designed for the task. It should be expanded, or preferably replaced with a comprehensive income-maintenance plan which would give money to all the poor, solely according to need. By the mid-1960's, this view had obtained a substantial following.

At first, liberal politicians stood firm behind the older idea of providing opportunities for the poor. This was the fundamental strategy of the War on Poverty and the Great Society. Apart from some popular programs for the elderly, little attention was given to welfare. (For Lyndon B. Johnson, some said, it was the Department of Health and Education, period.) Inside the Office of Economic Opportunity, plans for redistributing income were drawn up, but Presidential Assistant Joseph A. Califano administered the *coup de grâce* to the few proposals that came near the White House. Not until his final year in office did Johnson show any interest in the "income strategy," and then all he did was appoint a commission to study income-maintenance programs.

Before the commission could even submit its report, however, Richard M. Nixon startled liberals and practically everyone else by proposing a guaranteed income.

In August 1969, he put forth the Family Assistance Plan, which would have replaced the existing welfare system with a program assuring all families an income of about two-thirds the official government "poverty line." This first major domestic initiative of the Republican administration was nothing more or less than a plan to aid the poor by redistributing income; its origins lay in schemes devised during and rejected by the Johnson administration. But FAP had a more conservative lineage as well. For many years, Milton Friedman and others had argued that the emergence of a paternalistic welfare state could be slowed and the apparatus of government simplified if myriad programs were replaced by a simple income-supplement scheme or "negative income tax" that would permit the poor to buy what they needed in the marketplace, just like everyone else. This idea also appealed to the Nixon administration, as did its corollary: the proposition that any new plan should provide stronger incentives for self-support than the current welfare system did. Accordingly, FAP was offered—albeit with more hope than confidence—as a program that might actually restrain the softer liberal tendencies of government, even though its most apparent effect would be to create a mechanism for income redistribution on an unprecedented scale.

Paradoxically, perhaps, but not surprisingly, liberal politicians were disconcerted. For eight years, they had made eliminating poverty the central objective of domestic social policy, but they had proposed nothing so daring as that which a Republican President offered within months of taking office. Worse, it was this particular Republican President, who was thought to draw some of his advice and much of his support from those who had opposed the most progressive measures of the Great Society. Now, Nixon appeared to be in the vanguard of social policy, while they seemed to be clinging to outmoded ideas.

This role reversal was hardly more than momentary. If Richard Nixon could support a radical plan for redistributing income, then, judged the liberals, so could they. Three months after FAP was proposed, Johnson's commission recommended a near-identical plan. Moreover, unlike the Republicans, the liberal Democrats determined to provide *real* help to the poor. At issue was the size of the income guarantee. Some insisted that it be sufficient to enable a family to leave poverty entirely. Others went further, calling for benefits considerably above the poverty-line. The price of such plans was staggering—up to $50 or $60 billion more than the cost of existing welfare programs—and the consequences for the economy were far-reaching. But so long as FAP provided less, it could be denounced as inadequate, inhumane, or worse (precisely the sort of scheme that might be expected to emerge from the Nixon White House).

The new liberal enthusiasm for income redistribution ultimately helped to defeat FAP. From the start, the administration knew conservatives would be suspicious of the proposal, but hoped that loyalty to the President might command enough of

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their votes to obtain its passage That is approximately what happened in the House of Representatives. But in the Senate, liberal defections tipped the balance the other way. Southern Democrats and Midwestern Republicans had been expected to be against redistributing incomes; they were. Liberal Democrats were expected to be in favor; they were, but they would not have FAP unless it was expanded in ways unacceptable to the Nixon administration and its congressional loyalists. Stalemate ensued and after three years of debate, nothing had been enacted but another program of aid for the elderly, the blind, and the disabled.

Support for massive income redistribution now became the touchstone of liberal attitudes toward social policy. In 1972, Senator George McGovern made it a major theme in his campaign for the Presidency. After his defeat, congressional staffs and HEW planners set about designing programs that they hoped would have a chance of being enacted. They were assisted by a host of sympathetic economists in the universities, the research institutes, and such major liberal lobbies as the AFL-CIO. Republican interest had waned, however, and nothing much came of these efforts. Nonetheless, the Democratic platform of 1976 put the party again on record as favoring the replacement of welfare with a "simplified system of income maintenance, substantially financed by the federal government . . ." This was Jimmy Carter's mandate and among the first commitments he set out to fulfill after his election.

But redistributing incomes, it soon became apparent, was easier to talk about in opposition than to propose in office. One problem was the cost. The fanciful sums thrown about in the debate over FAP could not be taken seriously. As Senator McGovern had discovered, the public would not allow such generosity, nor would the budget of any prudent President. And *this* Democratic President was prudent, or so he wanted to be thought. Working under orders to limit new outlays, administration planners produced a program whose income guarantee was almost identical to the one Nixon had proposed. (For families headed by an employable man or woman, the aid available might be even lower.) Liberals outside the administration were dismayed, but hoped to correct matters on Capitol Hill. Despite its attempt at frugality, the Program for Better Jobs and Income would still have cost an extra $6 billion by the first official estimate. And nearly four times that when modified by the special subcommittee.

In any case, the more important problem was not how much PBJI would cost, but how little improvement it seemed to buy. Much had changed in the eight years since FAP had been proposed. Applications for public assistance had surged in the late 1960's and early 1970's with the result that up to 90 per cent of those eligible were now thought to be receiving aid. In addition, the food-stamp program, a federally-financed plan that gives the poor coupons redeemable for food, had been massively enlarged. From virtual insignificance at the end of the Johnson administration, it had grown to assist upward of 18 million people at a cost nearing $6 billion per year. A similar expansion had occurred in Medicaid, which supplies health care to the poor. Not only were welfare recipients eligible to benefit from these "in-kind" programs but so too were the "working poor," that is, those who were employed at low wages. Moreover, a new form of aid had been created in 1975 for this group (mostly at the instance of congressional conservatives worried about the more comprehensive schemes under discussion): the Earned Income Tax Credit, which augmented the incomes of families with earnings up to $8,000. Although each change reflected the particular circumstances and constituencies of a single program, the combined result was that by the time liberals returned to the White House, the nation had already made a tacit decision to abandon the idea of only giving the poor opportunities and had begun giving them money as well.

As a consequence, the $6 (or $20) billion to be spent on PBJI seemed to yield little promise of further reducing poverty. In 1965, at the outset of the War on Poverty, 15.8 per cent of all families had been classified as poor; a decade later, after the expansion of cash assistance and the various in-kind programs, the proportion had fallen well below 10 per cent. When fully implemented in 1982, PBJI would still have left 5.7 per cent of all families in poverty (compared to a projected 8 per cent if no changes were made in the existing programs).

To be sure, many of these families would receive more money from the President's program than they did from current ones, and would thus be less poor. But such families were to be found mostly in the handful of states in the South and Midwest which had traditionally set low standards for aiding the needy. These states had long had the option of raising their standards, had they wanted to, and most of the cost of doing so would have been borne by generous federal matching grants. But in the main they had not wanted to. The singular achievement of the Carter administration's proposal would be to allow them no choice.

Moreover, despite its immense cost, PBJI did little to help those states and localities that had taxed themselves heavily to provide for their poor. Despite the looming bankruptcy of New York City, for example, which spends more than a billion dollars a year of its own money for welfare and Medicaid programs, even the most expensive version of PBJI was estimated to yield the city no more than $66 million in "fiscal relief." Such savings as would result from more generous federal matching grants would be more than offset by

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rule changes that enlarged the welfare rolls to include families, childless couples, and even single people who were not previously thought (even in New York), to be in need of much assistance.

As the same time, PBJI would have restored to social-welfare policy something like the old Poor Law practice of "work relief." This, too, was a response to the political realities of income redistribution. The more money to be provided, the greater the public insistence upon good-faith efforts at self-support by those able to support themselves, a group which, in the wake of the massive increase in the number of working women, might now include even mothers with young children. Conservatives had sought mostly to require employable recipients to register with an employment service or to work at raking leaves or similar jobs in exchange for their checks. In contrast, the Carter administration now proposed to set up a huge public-works program that would enable anyone—welfare recipient or not—to choose from among more than a million minimum- or prevailing-wage jobs in fields like public health, environmental care, recreation, and education. The underlying rationale was that these jobs would increase the demand for low-skilled labor, thereby forcing salaries up for similar work in the private sector. But the few precedents gave little assurance that such numbers of jobs could be created or that they would not produce equivalent reductions elsewhere in the economy.

WHAT was "liberal" about such a scheme, apart from its price tag? Certainly one impulse was the desire for simplicity and rationality in welfare policy. The current array of federal, state, and local programs being generally regarded as complex and confusing, a liberal supporter of PBJI would hail the effort to replace multiple programs with a single national system. In practice, however, this goal is all but unattainable. For example, in order to avoid *reducing* benefits for families in states with the most elaborate programs, it is necessary either to raise the national standard to that of the most generous state or to continue allowing the states to supplement the federal payment. The former is fabulously expensive and may lead to such politically dubious results as putting half the population of Mississippi "on welfare" in order not to slash payments in Milwaukee. But the alternative (which the designers of PBJI reluctantly embraced) undermines both rationality and simplicity.

Far more significant in defining PBJI as a liberal measure was its extension of the principle of egalitarianism, which had, in the wake of FAP, replaced opportunity as the gauge of progressive social policy. Income, in this conception, should be treated as a matter of right and the amount of it one receives from the national government should be based solely on how much of it one does not get from other sources. It does not matter that one chooses to live in Texas, where the political culture has produced relatively ungenerous welfare benefits but where the cost of living is relatively low and the economy booming, instead of in Massachusetts, with its high prices, declining industries, and long established habit of decent provision for the poor. It does not matter that an intact family, a childless couple, or a single individual ordinarily is much better able to fend for itself than is the unmarried teenage mother of two toddlers. It does not matter that an able-bodied adult may simply not like certain kinds of work, preferring leisure or a "meaningful" job instead. Rather, the fact of low income is *prima facie* the basis for an income supplement (or a guaranteed job), and the size of that supplement should be as uniform as the national government can make it.

In short, what was "liberal" about PBJI was its attitude toward distinctions. Whether someone was poor for reasons beyond his control or as a result of his own actions made no difference. Whether poverty was apt to be a temporary situation or a chronic condition was inconsequential. Whether opportunities were plentiful or scarce was irrelevant. To each according to his needs: that was the new ethic of liberal social policy.

EVEN when PBJI was first proposed, it was clear that there was scant political support for such a Rawlsian version of egalitarianism. Opinion polls had consistently recorded large majorities of the public opposed to guaranteeing an income. While guaranteed jobs had more support, this was undoubtedly because the public saw them as a temporary assist to the unemployed, not as a permanent public-service corps. The amended version of PBJI that emerged from the special House subcommittee came close to embodying the principal liberal concerns about the Carter administration's design. Yet it found virtually no enthusiasm on Capitol Hill.

But the problems of an income-redistribution strategy go beyond its predictable lack of political popularity. Research findings gathered in the years since FAP was proposed suggest that giving the poor money may in fact render them less likely to become self-sufficient.

That welfare might lead to dependency has always been a matter of concern to social-policy planners. The fear that benefits based solely on need would cause recipients to work less has long been the principal justification for restricting help to those whose poverty stems from circumstances beyond their control, such as age, disability, or loss of a family breadwinner. In the 1960's, a conflicting theory had appeared: the possibility that welfare programs using requirements other than need actually encouraged the poor to fit themselves (where possible) to the requirements. Some even suspected that the rapid increase in families headed by mothers was tied to the fact that such families could more readily obtain entree to an in-

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creasingly generous welfare system. In truth, there was never any solid evidence that families split in order to obtain welfare benefits, but the logic was powerful and encouraged the Nixon administration to think that by extending aid to all needy families, FAP might actually prevent still greater dependency.

At about the same time, the federal government began a series of experiments aimed at testing the main hypotheses that underlie a guaranteed income. Although different in some particulars from either FAP or PBJI, these experiments yielded findings which strongly suggest that a national income-redistribution program may have vexing social consequences. As was expected, income guarantees produced some reduction in work effort; not a large one when measured in hours per person per week, but large enough to indicate that as much as half the additional money spent on such a program might simply replace income that would otherwise have been earned. (These findings came from tests of relatively short duration, five years at the most; the work reduction from a permanent program might be expected to be larger.)

Less predictably, it turns out that making all needy families eligible for support does not have a consistently salutary effect upon their stability. To the contrary, at benefit levels approximating those of FAP or PBJI, the prospect of assured income may increase the likelihood that intact families will break up. According to the most widely accepted explanation, the certainty of such publicly financed alimony makes a person less dependent on his or her spouse, and thus provides the financial ability to end an unsatisfactory marriage. In hindsight, not a particularly surprising result, but not particularly helpful either to those who had hoped that a guaranteed income would build happier homes and stronger families.

Conservatives were not especially startled by these findings. If anything, they were somewhat vindicated by this fresh proof of what they had long suspected: that giving money to people whether they work or not tends to encourage them to work less and also tends to increase the incidence of dependency. But then, many conservatives have for some time been suspicious of the income strategy. Although perplexed at first by the advocacy of such as Milton Friedman and Richard Nixon, they soon followed the lead of Ronald Reagan, and through various administrative devices, sought to make welfare more difficult to obtain.

In contrast, most liberal champions of a guaranteed income have responded to the unsettling experimental results by trying to discredit them. Failing that, what could not be disproved could always be stonewalled. Testifying last April before the Senate Subcommittee on Public Assistance, the Brookings Institution's Henry Aaron, then HEW assistant secretary for planning and evaluation, maintained that aiding intact families simply made sense: "I would suggest that really the burden of proof ought to rest on those who deny that such a patently sensible change in the incentives American families face . . . will improve, over the long haul, . . . the prospects for family stability." The Carter administration tried to claim that it had, in fact, taken the findings into account. One part of PBJI would repair what another part harmed: if a breadwinner quit work to live off welfare, he would be given a public-service job and by virtue of again being employed, would be less likely to leave his family. Perhaps; but no one could know, not unless more experiments were undertaken.

In truth, the fundamental issue was one of values, not facts. If poverty could most easily be ended by redistributing money, then advocates of a guaranteed income were prepared to tolerate some increase in the number of broken homes or some decline in the number of hours worked. A good many other people might well agree. Few Americans would allow children to starve simply because help might cause their parents to behave badly. Mothers ought have some alternative to working night and day in order to support their children. Disastrous marriages ought not be preserved simply because neither partner can afford to live alone. Such decent sentiments underpin a welfare policy that in many ways and many places is already quite generous. But the principle is much different from that of the redistributionists. Most Americans do not believe that need alone should entitle a person to money. The cause of poverty still shapes the public's willingness to provide income support. To each according to his deserts: this remains the dominant ethic of American social policy, even where standards of deservingness have slackened. Against it, the new liberal ethic based on simple need could not prevail.

CHASTENED by the experience of the 95th Congress, in early 1979 the Carter administration was developing a new welfare-reform proposal bearing little resemblance to its first one. It is now proposing only to increase welfare payments in the least generous states, provide a little fiscal relief to the more generous ones, and establish a scaled-down version of the public-service-jobs program. This proposal makes no pretense of being a guaranteed income for everyone. Yet it is apparent that the administration has advanced this measure with little enthusiasm. Spokesmen claim that the new bill incorporates all the "principles" of PBJI and act as though they were ashamed at not having been able again to offer the real thing. This attitude is unfortunate, because the obsession with a guaranteed income will continue to blind liberal policymakers to the real nature of poverty and to sounder alternatives for reducing it.

Long-term studies conducted chiefly at the University of Michigan have shown that the incomes

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of the poor fluctuate dramatically. Over nearly a decade, less than 2 per cent of the people whose incomes were watched remained impoverished throughout; conversely, fully one-quarter of the group were poor at one time or another during the period. In the words of one of the researchers, poverty is "a great deal more pervasive and a great deal less persistent than most people think."

The implications of this are much in dispute. Clearly, having so much of the population on the fringes of poverty is disturbing. But except for that relatively small group of people who seem chronically indigent, the adequacy of welfare programs may be less important than their accessibility. If poverty is a temporary condition for most of the poor, then—apart from measures which might prevent a loss of income—the most useful help is that which is easily obtained.

The great virtue of welfare programs that base eligibility on objective conditions beyond an individual's control is that they reduce doubt about the cause of need. A person is either elderly or not; disabled or not; a parent or not; married or not. This can usually be readily ascertained. In contrast, programs that base eligibility on need alone present what insurers call a "moral hazard": is an individual needy because he wants to be or because he has no alternative? Since that is often hard to tell, complex tests are employed. Indeed, in states whose benefits are now so generous that they risk "moral hazard" (as, for example, when a person might quit work to live on an equivalent or even higher income from welfare), obtaining aid has become more difficult: New York, which provides some of the highest levels of aid in the land, is now also among the leaders in rejecting applications for it, even though some number of these may well have been valid. Much the same situation would have arisen if FAP or PBJI had passed. Ironically, in seeking to give money to the poor solely according to need, a guaranteed income can be less effective in meeting their *real* need for temporary support.

CONTEMPORARY liberalism has not been inclined to rethink its views on these matters in large measure because of the difficulty of working up much enthusiasm for alternative solutions to the "welfare problem." Sensible though they may be, they are neither simple nor electrifying. They do not lend themselves to comprehensive programs, to emotional crusades, or to ready translation into specific legislation. Moreover, they start from several premises that are unsettling to many liberals.

The first is that the United States already has a fairly comprehensive array of programs, uneven and complex though they may be, through which practically no one who is unable to provide for himself goes unfed, unclothed, unhoused, or uncared for when ill. To be sure, gaps remain, but these can generally be filled by reforming existing welfare and social-insurance programs, instead of replacing them.

The second is that the poor are not helped by encouraging dependency. Able-bodied persons should ordinarily be expected to support themselves, and assisting them to do so is likely to be sounder for them and the society than providing them with money instead. National policy should also do what it can to promote family stability. The single-parent, female-headed family remains most vulnerable to poverty.

Finally, perhaps more than the middle class and the wealthy, the poor depend upon stable communities in order to have a chance of prospering and advancing. Some elements that make for such stability—religious or kinship ties, for example—may well be outside the scope of government influence. But other requisites—safety, adequate public-health services, decent schools, accessible jobs, and corollary social services—are not, and these may in fact be more important for social policy than focusing only on the incomes of individuals.

THE income strategy was a useful idea in its day. Although not yet adequately developed in every corner of the nation and perhaps too well developed in others, it is probably nearing its practical limits as federal social policy. At best, continuing to seek a national minimum income is an inadequate objective. At worst, it may be an inappropriate one.

THE GUARANTEED INCOME: WHAT AND WHY

(*Source:* Robert Theobald. Paper prepared for the National Symposium on Guaranteed Income, Chamber of Commerce of the United States, December 9, 1966: 35–44)

(NOTE.—Appendix deleted.)

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In the latter half of the nineteen-fifties, when I spent much of my time working on management problems, articles on business planning stressed that in any firm, company or corporation failure was inevitable if the area of business were too narrowly defined. It was stated, again and again, that if only the buggy-whip manufacturer had realized that he was in the transportation business, he might well have survived the transition from the horse and buggy to the automobile.

By the mid-sixties the business world has been largely reorganized in accordance with this understanding. More and more firms, companies and corporations have recognized that they can only survive in the present environment if they define their activities in an open-ended way so that growth and change are possible. Many descriptions of goals have now become extremely broad and may, indeed, be no more specific than "communication" or "transportation." In some cases the merger pattern of corporations is so wide that one feels that the appropriate description of goals is "any activity which produces goods and services which can be sold at a profit—even if only a long-run profit."

This recognition of the need for reexamination of goals *within* firms, companies and corporations is one of the factors which has led a growing number of social scientists to ask whether the same type of analysis should not be applied to the goals of the socio-economic system. *More and more effort is therefore being devoted to a discussion of whether the presently defined goals of the socio-economy are such that failure is inevitable: whether we have, in effect, a "buggy-whip" description of our socio-economic goals.* One of the crucial areas within this general debate is the feasibility and desirability of endeavoring to maintain full employment; there has consequently been increasing discussion about possible alternative ways of distributing income. Much of the examination of possible new directions has been concentrated around what I have called "Basic Economic Security" and what is now more generally known as a "Guaranteed Income."

A BRIEF HISTORY OF THE GUARANTEED INCOME CONCEPT

Those proposing the idea of a guaranteed income are stating that each individual, or family, should receive a set level of income as an absolute right. However before entering into the heart of the debate around this issue it would be useful to set out with great brevity the events which have brought the idea of the guaranteed income to the

Reproduced from: U.S. Congress. House. Resolved: that the Federal government should guarantee a minimum annual cash income to all citizens. House document no. 90-172, 90th Congress, 1st session. Washington, U.S. Govt. Print. Off., 1967. p. 163-176.

point where a meeting of the National Chamber of Commerce on this subject appears appropriate.

It is necessary to distinguish two lines of thought. The first line derived from American Materialist Utopian thinking of the late nineteenth century. In 1888, Edward Bellamy wrote *Looking Backward* which examined the materially abundant world of the year 2000 from the viewpoint of a man with the perceptions of the year 1887. One of the central theses of the volume was that each individual would be entitled to "maintenance." (We will see later in this paper that it is very probable that Bellamy's choice of methodology, which allowed him to see the past as prologue to the future rather than seeing the future as determined by the past, was critical in his ability to perceive the possibility of and necessity for fundamental changes in the socio-economy.) While Bellamy's book had major impact throughout the remainder of the nineteenth century, it was largely downgraded in America in the first half of the twentieth and only brief mentions of the concept by such writers as Erich Fromm and Clarence Ayres ensured continuity for the idea. By 1960, it was clear that the abundant economy was already emerging and I wrote in The Challenge of Abundance (published 1961) "The society of abundance could, at last, provide independent means, which would allow each individual to obtain minimum amounts of clothing, food and shelter."

The other line of thought can be traced back at least to 1946 when George Stigler wrote in the American Economic Review that the most efficient way to maintain the basic purchasing power of all members of society would be to ensure a minimum income floor through the use of the federal income tax mechanism. "There is a great attractiveness in the proposal that we extend the personal income tax to the lowest income brackets with negative rates in these brackets." This idea, now generally known as the negative income tax was further developed by Milton Friedman in his 1962 book *Capitalism and Freedom:* "The arrangement that recommends itself on purely mechanical grounds is a negative income tax * * *. The precise floor set would depend on what the community could afford.

"The advantages of this arrangement are clear. It is directed clearly at the problem of poverty. It gives help in the form most useful to the individual, namely, cash. It is general and could be substituted for the host of special measures now in effect. It makes explicit the cost borne by society. It operates outside the market."

In 1963, I first published *Free Men and Free Markets* which explicitly united both of these lines. On the one hand, my justification for the guaranteed income went back to the philosophy of Thomas Jefferson who claimed that man could not be free unless he could support himself from his own land. Given the fact that land is not now available for all, man can only be free if he has a right to the production of machine systems. On the other hand, I argued that the present mosaic of welfare measures was an extraordinarily inefficient way of meeting the implied American commitment to ensure that minimum incomes would be available for all and that it would be more efficient to use the negative income tax technique.

The proposal for a guaranteed income attracted nationwide attention when the report of the Ad-Hoc Committee on the Triple Revolution, of which I was a signatory, appeared in 1964. It received further comment throughout that Presidential year because Professor Friedman was chief economic adviser to Senator Goldwater in his bid for the Presidency: indeed many reports of the period argued that statements of the Ad-Hoc Committee should not be seen as extreme because the same idea was supported by Professor Friedman.

Support for the guaranteed income continued to develop during 1965 but official Washington interest only became apparent in 1966 when the President's Council of Economic Advisers, the Office of Economic Opportunity, the White House Conference on Civil Rights, and the National Commission on Technology, Automation and Economic Progress all suggested further study of the concept. As a result of this interest, the implications of the guaranteed income are now being intensively studied in various government departments. The guaranteed income has also achieved one of the status-symbols of the present world: a special publication devoted to this subject is published by the School of Social Work at Chicago University and should be subscribed to by anybody with even peripheral interest in the subject.

AGREEMENTS AND DISAGREEMENTS

The guaranteed income can therefore be seen either as a method of implementing a fundamental philosophic principle or as a way of eliminating one of the areas of inefficiency in the culture: that of payments to those with inadequate funds. There are a number of people who deny the validity of both of these goals and these views will be represented in this meeting. But this denial implies that the clock should be put back to a period which is no longer acceptable to any major part of the American nation. Already, in effect, there is general agreement that some people neither can, nor should, earn their living and will therefore be poor, and that such people should be entitled to support from the government.

The relevant question, therefore ceases to be whether there is a need to provide funds to those who do not receive enough money either through work or the ownership of capital. Rather it becomes essential to examine the methods which are presently being used to provide funds in order to determine whether they effectively carry out the task which the society desires to accomplish and to examine whether there are any present or foreseeable changes in conditions which make it essential to change the goals of present programs.

This attempt to redefine appropriate means and ends for paying money to those who cannot earn enough for themselves lies at the heart of the guaranteed income debate. Yet despite the growing volume of studies there is widespread confusion about the reasoning which lies behind the proposal and many of the studies presently being published threaten to perpetuate, and even deepen, the present causes of misunderstanding.

It would seem that much of the confusion results from the rapidly changing reactions to the idea of the guaranteed income since it first became an issue at the time of the publication of *Free Men and Free Markets*. I described this evolution in late 1964 in the following way: "The bulk of the criticism in early 1963 evaluated *Free Men and Free*

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Markets, title notwithstanding, as an extreme leftwing text. By mid-1963 it was increasingly considered a modern restatement of New Dealer pholosophy. By early 1964, following the publication of *The Triple Revolution* and the consequent association of my name with the thirty-three other signers of the document who together comprised the Ad-Hoc Committee, the book was rather generally evaluated as 1964 liberalism. Finally, after mid-1964, the analysis and indeed the proposals are being characterized with increasing frequency as conservative and even reactionary." This evolution has continued in 1965 and 1966 and an idea which was first rejected by almost all commentators as too extreme to be worthy of practical consideration is now being downgraded by many on the grounds that the reform would not have sufficiently significant results.

It is essential that the areas of agreement and disagreement among those supporting direct payments to the poor should be sharply differentiated. *The first area of agreement is that the initial step on the way to eliminate poverty is to supply money rather than moral uplift, cultural refinements, extended education, retraining programs or makework jobs.* In addition, it is agreed that the prime criterion for the distribution of funds should be the poverty of the individual rather than whether Congress is willing to pass legislation protecting the income rights of any special group the individual is presumed to be in. It is agreed, as a corollary, that many programs such as those in agriculture which were originally designed to help the poor have become methods of subsidizing the rich. There is another area of agreement which is crucial: *funds should be provided as an absolute right and the size of grants should be determined on the basis of objective criteria rather than on the whims and prejudices of the bureaucrat. An absolute guarantee of payment should be incorporated in the legislation setting up direct payments to the poor.*

The recognition of the need to provide *guaranteed direct* payments to the poor on the basis of their *existing income levels* must necessarily be shared by all the proponents of a guaranteed income. Their motivations for suggesting such a scheme may, however, be very different: this can be most clearly seen by contrasting the approach of Professor Milton Friedman with my own. Professor Friedman sees the fundamental economic problem as resulting from increasing government intervention in the economic system. He finds this development deeply disturbing for he believes that the economic system can only be expected to work efficiently if each individual is free to seek his own economic advantage. Perceiving as he does that much of the increase in government intervention in the economy results from the fact that it is impossible for the rulers of a modern state to allow any group of citizens to starve, Professor Friedman believes that we should devise measures which would ensure a minimum income for all and thus eliminate the major present cause of government intervention in the economy. It is essential, in his view, that the level of income not be set so high that it would detract from the incentive to work—while he has not, to my knowledge, proposed a precise level for grants, his illustrations have often been couched in terms of an income floor of $1,600 for a family of four. The reasoning of Professor Tobin has led to similar conclusions.

Professor Friedman hopes that once such an allowance is available, society would not only cease to demand the introduction of further measures of government intervention but would acquiesce in the dismantling of the vast majority of the measures already in existence which were passed to help those less able to help themselves. He anticipates that as government measures are rescinded, and what he sees as the barriers to "self-help" are removed, the country would benefit from an access of the drives which made the nineteenth century so successful. The proposal of Professor Friedman can therefore be explained by his belief that we should recreate the conditions in which the individual can strive to maximize his economic satisfaction with the greatest degree of freedom and the minimum outside intervention.

While I agree with Professor Friedman that one of the main threats to the survival of freedom is the rapidly growing intervention of government bureaucracies in individual lives, my object in providing the individual with a guaranteed income is not to move back to unrestricted economic competition but rather to move forward into a new social order. In my view, therefore, the guaranteed income must provide a standard of living adequate for decency—I believe that we should start with a minimum income of $3,400 for a family of four and provide for an annual increase.

I also argue that while a work-incentive feature is probably necessary to ensure passage of the legislation, the size of the premium should be kept to a minimum. (The Appendix to this paper sets out my original proposal as contained in *Free Men and Free Markets* as well as the modifications I have made since its publication.)

THE SCIENTIST'S ANALYSIS

The most immediate reason for my differing approach is my continuing disagreement with the prevailing consensus among economists about the impact of cybernation—machine systems combined with computers—on the level of unemployability. It is still generally argued that the development of cybernation does not imply a fundamental break with the past: this situation continues to be the case although the National Commission on Technology, Automation and Economic Progress, set up to examine this precise issue, failed to provide any answer: "It is beyond our knowledge to know whether the computer, nuclear power and molecular biology are quantitatively or qualitatively more 'revolutionary' than the telephone, electric power and bacteriology."

Many scientists, however, see the present situation in very different terms. It is increasingly agreed that mankind is now living through a period of fantastically accelerated growth: this means that most major trends when graphed, rise almost vertically and are therefore exponential in nature. Dennis Gabor, Professor at the Imperial College of Science and Technology in London, has pointed out the fundamental instability of this situation: "exponential curves grow to infinity only in mathematics. In the physical world they either turn around and saturate, or they break down catastrophically. It is our duty as thinking men to do our best toward a gentle saturation, instead of sustaining the exponential growth, though this faces us with very unfamiliar and distasteful problems."

Irving Kaplan, a computer scientist, has expanded on this insight:

> The first alternative, if the exponential trend remains stable, is that the rate of progress in the technological world of the near future is beyond the comprehension of minds utilizing the contemporary frame of reference. Under this alternative we would not be far from the truth if we predicted that the next twenty years will see far more technological progress than has the previous 2,000,000 years * * *
>
> The second alternative * * * would be * * * a deceleration of technical progress. Such a decline could be due either to the exhaustion of technological potential or to the attainment of such a high level of technology that the culture would be saturated with the technological product and society would shift its values * * *.
>
> The third alternative would be for the curve to end or to fall precipitously. This could only indicate a catastrophic event such as a disease epidemic of tremendous proportions, a destructive astronomical event, or a war of sufficient destructive force to destroy the nation's or the world's industry and technology.
>
> Our exponential curve allows only for the three alternatives which we have discussed, each being so far removed from contemporary experience as to present the individual with a problem of credibility. Whatever direction progress takes from this point on will be a dramatic one

It appears justified to exclude the third possibility for the purposes of this discussion--although we should certainly plan our activities in such a way as to minimize the possibility of catastrophic events. Either of the other two alternatives ensure that there will be profound consequences for the types of work which man will need to perform. This is self-evident in the case of a continuation of the present curve but we should recognize that this will also be true even if a deceleration of the rate of technological progress takes place: the degree of rigidity in the socioeconomic dynamic is such that shifts would continue at a high rate even if the scale of social priorities were to change sharply.

An increasing range of authorities agree that fundamental changes in work patterns will take place and that these will make it possible for cybernated machine systems to take over all structured tasks—that is all the tasks for which the decision-making rules can be set out in advance. Even Charles Silberm.n, one of the most resolute denigrators of the significance of cybernat.on stated in his last book *The Myths of Automation*: "Sooner or later, of course, we shall have the technical capacity to substitute machines for men in most of the functions men now perform."

What are the implications of this agreement on the technical significance of cybernation for the short- and long-run? It is at this point that my analysis parts company with that of most academic economists although I find myself quite close to many business economists in my analysis of the short-run consequences. The next sections of this paper will discuss these implications.

SHORT-RUN CONSEQUENCES OF CYBERNATION

The October 1966 issue of *Fortune* Magazine carried the following statement: "The enduring lesson of the past dozen years is simple enough. The United States cannot have it both ways. So far as human wisdom can now see, the nation can have very full employment only at the expense of monetary instability, and it can only have reasonable

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monetary stability at the expense of some unemployment." I believe that this statement has considerable validity—although it is clear that if all parties to labor negotiations were willing to be moderate in times of full employment, the level of unemployment which would be possible without inflation would clearly be lower than it is now. Policy must, however, be made in terms of actual conditions—not conditions as one might wish they were.

It is clear, therefore, that in today's world there must be a trade-off between levels of unemployment and inflation: thus it is necessary to judge whether unemployment or inflation works more hardship on individuals and does more damage to society. There appears to be, at the present time, an effective, if implicit, consensus, that the disadvantages in terms of inflation caused by pushing the unemployment rate below 4 percent is greater than the benefits accruing to those who find employment through the availability of more jobs.

This acceptance of a 4-percent rate of unemployment effectively destroys the validity of the argument which the Administration and the National Commission on Technology, Automation and Economic Progress have used in recent years to deny the seriousness of the challenges caused by cybernation. They have claimed that the labor market has always operated in such a way as to draw in the most highly skilled employees first and to only find jobs for the marginal worker in times of high demand. It has therefore been argued that if demand can be raised high enough, the problem of unemployment would cease to exist just as it has in previous boom periods.

There would be few who would deny that at the present time it would be possible to employ almost everybody if demand were raised to an adequate level. The challenge to the Administration's policy has not therefore been couched in these terms but rather in terms of whether the Administration would, in fact, prove willing to incur the inflationary costs inevitable if unemployment were reduced to really low levels. Professor Charles Killingsworth of Michigan State University has long argued that increasing inflation would stop the Administration's policy of increasing demand long before full employment was reached: it would appear that the events of the past year have fully borne him out.

If this is the case, one must reconsider whether *Fortune* was accurate when it argued that it is "very full employment" which brings on inflation in present circumstances. For while it is true that the unemployment rates of those with good education and extensive skills are presently at an irreducible minimum, the rates for the unskilled and the underprivileged are still very high. It is easiest to see the seriousness of the problem by examining the problem of non-White employment for a disproportionate percentage of the undereducated are non-White. In recent months the relationship between the unemployment rates for Whites and non-Whites has worsened substantially: the rate for non-Whites is around 8 percent. Unemployment for Negro teenagers is as much as six or seven times the national average and almost three times the White teenage rate. A special survey in "poverty tracts" of about 100 cities with a total population of 12 million showed that the unemployment rate for Negroes was 9.4 percent, for male Negro teenagers was 31 percent and for female

Negro teenagers was 46 percent. In addition, 150,000 men in the prime working ages were neither working nor looking for work. Another special survey of the Watts area of Los Angeles showed that median family income in South Los Angeles has been declining during the boom while the per capita income in the rest of the country has grown substantially.

Confronted with these statistics, the usual comment of the businessman is that he desperately needs workers: that he would employ anybody who meets his needs. This, however, is the precise problem for *the needs of the businessman and the characteristics of ever-larger parts of the population are diverging: the problem is not that of unemployment but of unemployability at any socially acceptable wage.* In these circumstances it is perfectly understandable that a substantial number of workers will claim that they have looked for jobs while businessmen are claiming that there is a desperate shortage of workers. (I must add, however, that some of the criteria presently used by businessmen—such as any arrest record being sufficient grounds for refusing employment—ensure that many potentially good workers are unable to secure employment. Let me remind you that in many states an arrest record does not necessarily mean that the individual was convicted and that it is a remarkable and lucky child who can grow up in the ghetto without being arrested at least once.

I have no doubt that a very severe problem of unemployability is emerging. Certain types of workers have insufficient capabilities, given the education they have received, to be worth employing at the socially determined wage rate. Nor does there seem to be any realistic possibility of training programs of sufficient magnitude to change significantly this situation. *It is still insufficiently recognized, however, that the problem of ultimate unemployability is not confined to the blue-collar worker.* The *Wall Street Journal* has stated that even during the present boom a substantial number of middle-management personnel are finding it impossible to keep up with the new knowledge required for effective administration. The lead sentence of the article set the tone: "Today's fast changing conditions are spawning a new breed of executive—the obsolete executive." In particular, companies that rely ever more heavily on computers find it necessary to give responsibility to younger people who have an understanding of computer management, thus limiting the prospects of older people who would normally have continued to move up the management ladder. A recent survey of the American Foundation on Automation and Employment indicated that the problem could be expected to deepen, and rapidly.

It is obvious that as the number of unemployables continues to increase, the percentage of unemployables at any given level of unemployment will rise and that of employables will decline. This shifting mix between the employable and the unemployable will, of course, put greater pressure on wages as employers struggle to attract, by higher wages, those capable of doing the required work. *The consequent intensification of inflationary pressures will force the government to exert ever-greater central control over the operation of the economy—the imposition of price and wage controls would seem almost inevitable.* (The present direction of events in the United Kingdom is surely significant in this connection.)

There is, in my opinion, no way to avoid this trend unless we are willing fundamentally to restructure the operation of the present socioeconomic system. The viability of the present American socioeconomic system is based on a very simple premise: it is assumed that it is possible for the overwhelming proportion of those seeking jobs to find them and that the incomes received from these jobs will be adequate to allow the individual to live in dignity. So long as this system continues, it is essential that unemployment rates be kept down to a minimum. It is only therefore if we become willing to accept that a man is entitled to a decent income even if he does not hold a job that we can break out of the present trend to ever-greater government control.

However in establishing a trend toward a new socioeconomic direction it will be necessary to introduce not only the guaranteed income to provide a basic floor but also to find ways of ensuring the maintenance of the incomes of those in the middle-income groups who are threatened by cybernation. (*Free Men and Free Markets* contains the outline of a proposal to deal with this income maintenance issue called Committed Spending.) While there is no space in this paper to set out the full income maintenance proposal it is essential to state that discussion of the guaranteed income concept without the idea of income maintenance is drastically incomplete. In effect the coming of cybernation challenges us to recognize that the neo-classical assumption that each man receives the amount he contributes is a myth and then forces us to reexamine totally our conventions about the distribution of income.

Provision of the guaranteed income at an adequate level and the introduction of income maintenance over time would make it possible to accept higher level of unemployment for the degree of hardship associated with unemployment would be greatly reduced: this in turn would make it possible to reinforce the essential decentralized dynamic in the socioeconomic system. But while this policy might appear favorable to many if it were perceived to be truly feasible, its practicality is rather generally denied on the grounds that people would not do anything if they could get almost as high an income without any activity. There is no doubt that some people would not choose to perform productive activities but I personally remain impressed with the comment of a banker colleague who arrived at the guaranteed income idea independently and who says: "Given the fact that 3% in all income classes are bums, it's strange that we're only concerned about the element of bums among the poor." Indeed, surveys show that most Americans in all income classes have an almost pathological desire to toil: I personally anticipate that there will be so many people looking for toil in coming years compared to the amount of toil available that people will be prepared to pay to obtain it. In addition, it should be clearly recognized that many types of activities which are now infeasible because of the necessity to pay at least minimum wages would be opened up—new programs which are urgently required could be funded at far lower cost because it would not be necessary to pay wages. As has often been pointed out, there is no shortage of activities—the only problem is funding them.

This last point begins to move us into an examination of longrun consequences: these are discussed in the next section. Before leaving this subject two final points should be made:—it is already clear that those in charge of welfare programs are finding the constant rise in welfare costs threatening both in terms of budgets and political problems. It is obvious that many governors and mayors would be glad to hand over the whole problem of providing for the poor to a disinterested agency so that they could use the funds released for many constructive state and city programs now held up for lack of money. The introduction of the negative income tax thus becomes a method of providing additional funds to states and cities—a goal which is increasingly generally accepted. While the Vietnam war has temporarily removed attention from the need of the businessman for additional customers, it remains true that business desires more people to buy its goods. The greatest untapped market in this country is the poor: increasing pressure can be expected from business for the allocation of additional funds to the poor through the introduction of the negative income tax.

These are only two of the groups which will see short-run advantage in the guaranteed income: others include social workers, labor, the church, the poor themselves. *Given the necessity for new and more imaginative measures to deal with the urban crises, it is certain that the guaranteed income will be adopted far earlier than would seem probable to most people at this time.*

LONG-RUN CONSEQUENCES OF CYBERNATION

The long-run consequences of cybernation are often discussed by economists in terms of shifts in the job-mix. It is argued that people have moved out of agriculture and mining into manufacturing in past years and decades, that in turn the relative importance of manufacturing is now declining but that more opportunities are developing in the service areas. In fact, the cliche answer to any questions raised about the impact of cybernation is in terms of the unlimited number of job opportunities in the service areas.

This historically based argument does not fit present reality. Many service industries are very vulnerable to the impact of the computer and machine systems: indeed they are at least as vulnerable as agriculture, mining and manufacturing. Service workers in such areas as banking and insurance, record and middle management can be directly replaced by computers: other service jobs, such as the repairing of appliances, will be eliminated by the new modular design techniques which will be increasingly important in coming years. In effect, any structured activity is vulnerable to cybernation whether it be in agriculture, mining, manufacturing or the service industries.

There is, however, a class of service activities which cannot be effectively taken over by the computer and machine systems: these are activities involving the human care of human beings. Included among these activities are education conceived as a life-long activity, the nurturing of creativity, the care of the sick, and politics in its broadest sense, for while it is true that machine-systems can appear to take over these activities it is only at the cost of losing their essential essence. *It is therefore urgent that we carry through the task, defined by Norbert Wiener, of determining which activities should be regarded as* *suitable for machine-systems and which should be regarded as suitable for human beings. This will begin to allow us to free man's intelligence and capabilities from the bondage of repetitive, unfulfilling toil.* We will then be moving toward a situation where more and more of the necessary work will be carried out by individuals on a voluntary basis for the activities required by the society will be those which individuals find meaningful and valuable. The work of the politician, the manager, the artist, the educator and the doctor are all professions which are found attractive in themselves quite apart from the monetary rewards they bring.

Society has already recognized that it is desirable that the monetary reward of endeavors in many of these classes of activity should not be directly tied to immediate performance: this is most clearly apparent in the case of a Professor with tenure, who is allowed to perform his role in the way which appears most appropriate to him and there are relatively few effective techniques which the college or university can use to dislodge him from the post he holds. This would suggest that it might be most appropriate to provide all those engaged in human interactions with their income as a right and then expect them to develop themselves and their society. This approach would surely be more efficient than developing "job" descriptions for new or reorganized activities in order to have a one-to-one correlation with an appropriate income level.

While it might appear that there are numerous compelling arguments for providing everybody with their income as a right, this idea is rejected by many, including the vast majority of economists. *It turns out that economists have a remarkably low opinion of human nature. They claim that it is always necessary to provide financial incentives to the human being if he is to do anything worthwhile—they are therefore fundamentally opposed to any steps which would weaken this financial coercion to carry out only those activities which can be defined as a "job."*

Businessmen, however, should be very wary of this argument for it effectively destroys the thesis of free enterprise—that it is possible to fill the real needs of the society without coercion because the needs will be perceived and met by the combined activities of individuals acting freely on their own initiative. The ideal of free enterprise postulates a situation where a man can work in any area which appears constructive to him and where he has a reasonable chance of success so long as he is willing to put in the necessary effort: it also postulates that there will always be enough people who are willing to make the effort. It is further assumed, if only implicitly, that the educational system will be so organized that young people will be challenged to find activities which seem meaningful to them and will have the capacity to undertake them.

The impact of cybernation is such, therefore, that all those who believe in the capacity of the individual to direct his own life must reexamine the social structures which will be required in the last third of the twentieth century. *The present socioeconomic system often demands that the individual deny his own perception of where he can most usefully contribute:* he may be unable to secure a job or a grant which would allow him to work in the areas which he sees as most crucial. *This subordination of the individual's desires was perhaps necessary when the socioeconomic system was designed to maximize production at a relatively static level of technology: it is no longer required, nor indeed desirable in today's world where increasing knowledge is the most important factor in raising productivity.* The debate which has been carried on within many companies about the degree of control which should be applied to research staff might be recalled here: the conclusion that the best results are obtained when the individual has the maximum of freedom to pursue his own lines of work is relevant for the total society as well as for each specific company. It would appear that this freedom can be most effectively assured if each individual receives his income as a right—the first step in this direction is the introduction of an income floor and income maintenance.

The introduction of these two measures would begin to eliminate a curious deficiency in the present financial mechanisms of our free-enterprise system. There are few possibilities for the individual to act as an institution, self-directed and alone responsible for his activities. Isolated examples of the individual as an institution do, of course, exist: the independent rich and those receiving grants and fellowships. It is individuals with such possibilities who are then able to act outside the constraints of the market-oriented, task-structured system and to make some of the most critical contributions to the development of the socioeconomy. It is increasingly clear that the highly idiosyncratic rhythm of activity and inactivity required for creative and innovative effort is not amenable to renumeration according to present economic criteria and mechanisms: the introduction of an income floor and income maintenance is essential if society is to benefit from the talents of those who are capable of acting in this way but who lack financial support.

For society at large, and especially for creative people, the situation is analogous to the introduction of limited liability in the nineteenth century. Limited liability was introduced to encourage risk taking by those investing in companies. The concept of the joint venture was replaced by the concept that the stockholder's liability for company debts no longer placed a lien on his total wealth but only on the amount he had invested in the company. Limited liability was a precondition for the taking of risks: it did not ensure risk taking or innovation but it did make them possible, thus allowing the economy and society to benefit from the self-interested acts of individuals.

Similarly, an income floor and income maintenance would provide the individual with the ability to do what he personally feels to be important. This would allow risk taking and innovation in areas where the existing and emerging needs of the society are not being met by an otherwise efficiently functioning free-market system. Such income would not be mediated through the offices of any other individual or organization and would not bring with it built-in pressures for the recipient to continue what is already being done within the market system.

The history of the free enterprise, market system has been a continuing, sustained effort to balance individual inclination and innovation against those goods and services which the market showed to be cur-

rently valued. At present technological speeds, however, the market has become too slow a method of value communication to be entrusted with the initial acceptance or rejection of innovative efforts. Rather it must be seen as the eventual testing ground of developed initiatives: to accomplish this task the market pricing system must be freed of many constraints which presently prevent it from accomplishing this necessary function. In these circumstances, an income floor and income maintenance, would become both the guarantee of basic consumer rights and the foundation for new productive initiatives prior to eventual testing in the free market.

RELATION BETWEEN BUSINESS AND SOCIAL PLANNING

If the above arguments are correct, *we are indeed working with a "buggy-whip" description of our social goals: we are still acting in such a way that failure is inevitable.* What can we learn from the planning practices adopted by business and what applicability can we expect these practices of business to have for planning in the general socioeconomy?

We are all familiar with the meaningless oversimplifications of the What-is-good-for-General-Motors-is-good-for-America type of slogan. But in a completely new way, the emerging pattern of business process *is* a paradigm for the socioeconomy. In both cases, there must always be a goal but this goal must be subject to revision in the light of subsequent events. In both cases, there must be knowledge, through direct observation, of the present strengths and weaknesses of the system. In both cases, it is necessary to develop strategies to move from where one is to where one wants to go. In my opinion the financial strategies of an income floor and income maintenances are prerequisites for movement toward our overall socioeconomic goals. They are *not* the complete solution to our complex individual and societal problems, rather they facilitate the search for solutions.

The fundamental irresponsibility of business in recent years is that it has not insisted that its growing knowledge of how to plan be translated for the use of the total socioeconomy. Business is rapidly gaining sophistication in its ability to understand and benefit from the new technological developments but the total society has found itself driven by the same technological developments and been largely unable to benefit from their potential. Only one example need be given: all major business firms have installed extensive computer system to provide them with up-to-date information on their operations. The Congress of the United States, on the other hand, has hardly benefited from the computer revolution and threatens, as a recent report vividly demonstrated, to clog its channels of communication with the very paper it creates.

Looking back over the past ten years, it is clear that a revolution has occurred in the concepts of management which have made it possible to ensure more effective use of available resources, human and material: this revolution will clearly continue. Out of this revolution has come the tools which would make it possible to fulfill more completely the goal of the American society: to ensure that each individual has the maximum of freedom compatible with the overall needs of the *society. The sharing of this knowledge with those who must work toward the necessary changes in the socioeconomic system could establish a new role for business in the development of the United States in the next decade—a role which has been implicit since individual liberty was first enhanced by the growth of the free market.*

It is impossible for me to end this paper, however, without stating that I see no present indication that this will occur. The many companies which are investing huge sums in educational technologies assume the continuation of an educational framework which is known to be outmoded and which is clearly antithetical both to real education and to socioeconomic planning. The computer companies continue to devote little money and even less attention to exploring the consequences of the computer and cybernation for the socioeconomy. Most seriously, executive officers, particularly those of large corporations, continue to give credence to myths which are totally outworn and thus impede the development of the necessary thrust to socioeconomic change.

The full participation of business organizations and business executives will be essential if America as a whole is to benefit from the potential which has been developed. This is the fundamental challenge which lies behind the guaranteed income idea: it is the one which *must* be met if we are to be able to achieve the goals which inspired the founding of America and which are now possible of realization.

SOCIAL WELFARE IN THE 1980s AND BEYOND
(By Eveline M. Burns)

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THEN AND NOW

Looking back to the mid-1930s, we see that it was a time of optimism and hope in the field of social welfare: there was a pervading expectation of realizable progress. The newly passed Social Security Act brought social insurance into being on a national scale, giving rise to the hope that as the system matured and its scope expanded to cover more people and more risks, it would minimize the need for income-tested programs. The act also laid the groundwork for an improved public assistance system, although only for limited categories, by standards setting and providing federal grants to states. This stimulated the development of state and local public welfare agencies with extensive responsibilities, where before such agencies had existed in only a handful of states. Limited federal aid was made available to expand child welfare and certain maternal and child health services. Through the WPA and other federal work programs, the federal government accepted the responsibility for the employable needy, young and old. The Fair Labor Standards Act encouraged labor organization and collective bargaining, and initiated federal minimum wage legislation. There were also new housing programs.

With these new institutional weapons, it indeed seemed possible that insecurity and low living standards might be eliminated, or at least reduced to minimal proportions.

Current Pessimism

How different is the situation at the end of 40 years! Apart from a brief flurry of, perhaps excessive, hope accompanying the Economic Opportunity (OEO) programs of the 1960s, optimism has given way to pessimism. We are painfully aware that poverty has not been abolished, even though its extent has diminished. Income- or means-tested programs, far from disappearing, are on the increase and now affect millions of people. Over 16 million in mid-1976 were receiving cash assistance through public assistance and SSI (Supplemental Security Income). Almost a third of all cash benefits are now payable only on passage of a means test. To those must be added the non-public-assistance recipients who receive food stamps, Medicaid services and housing subsidies.

In the 1930s an important objective of public assistance reform was elimination of payments in kind. Federal cost sharing in public assistance was therefore limited by the Social Security Act to *cash* payments. Today, of total public aid expenditures of almost $50 billion, over $20 billion are for payments in kind—mainly food stamps and Medicaid plus an unknown amount for housing assistance including "rent as paid." The Congressional Budget Office reports that in the last decade transfers in kind (including Medicare) increased sixteen-fold while cash payments for income-listed programs increased only fourfold.

Programs Under Attack

Almost all the social welfare programs are under attack, though often for opposing reasons. OEO is said to have been a failure, and much the same is said of the variety of training programs experimented with over the intervening years. Medicare and Medicaid are alleged to have been of more benefit to the providers of health services than to the recipients. Certainly they have encouraged serious price escalation.

Even Old-Age, Survivors and Disability Insurance (OASDI), generally known as Social Security, and probably the most popular of all the new programs of the 1930s, has come under attack. It is criticized for not assuring minimum security to those who need it most—the low paid and irregularly employed—while at the same time and despite the weighted benefit formula, providing the greatest dollar subsidies to the benefits received by the higher paid. It is said to be especially unfair to single persons, married women workers and to couples where both work as compared to those where only one spouse works. The program's financing is alleged to be in jeopardy, especially in the long run. Changes in the benefit formula implementing the automatic cost of living adjustments of 1972 have unintentionally provided excessive payments to future beneficiaries, and account for 45 percent of the anticipated long-run deficit.

But of all the instruments for dealing with insecurity, the one most widely criticized is the welfare system itself. The numbers supported by the program have grown monstrously and there is a suspicion that the nature of the system itself has been the cause of some of this growth. The burden of welfare costs is said to be ruining many local authorities, especially in metropolitan areas. The standard of living provided by the program is low--in many cases well below the poverty threshold and varies widely from state to state. Administration is said to be lax, resulting in much cheating, abuse, and admission of ineligible people. The economic and social consequences of the program are alleged to be disastrous--it discourages initiative and efforts toward self-support. It taxes the earnings of the poor at a higher rate than those of the rich. It encourages family breakdown. The list is long and all-too-familiar. "Welfare reform" has recently become a preoccupation of all levels of government.

The proportion of gross national product devoted to income security and welfare programs, including health costs but excluding education, has grown from 1.5 percent in fiscal 1929 to 15.2 percent in fiscal 1976. The taxpayers, whether those paying earmarked social security taxes or those subject to other federal, state or local taxes, are beginning to resist further levies.

Finally, federal involvement in social welfare was seen as one of the great achievements of the 1930s, whereas today there are rising complaints about excessive fed ral control and intervention in the policies and administration of the states. This is accompanied, perhaps oddly, by complaints that the federal government does not provide enough financial aid.

WHAT WENT WRONG?

When we recall the optimism of the 1930s and contrast it with the situation in the 1970s, one is compelled to ask what went wrong?

But first, we should acknowledge that much also went right.

Progress and Accomplishments

Poverty as officially defined has been significantly reduced, even though it has not been abolished. Between 1959 and 1975 the percentage of the population below the official poverty line fell, according to the U.S. Census, from 22.4 to 12.3, the numbers falling from 39.5 million to 25.9 million. But these figures underestimate the extent of poverty reduction, for they relate to cash income only and do not take account of benefits in kind, such as food stamps and Medicaid, or income under-reporting. The Congressional Budget Office has estimated that if allowance is made for benefits in kind and for under-reporting, the decline in poverty since 1965 would be nearer 60 percent than the 30 percent reported by the Census.

One indication of progress is the fact that the definition of poverty is now criticized as being unduly low. It is increasingly said that the present concept, which might be defined as absolute poverty the inability to purchase a specified quantity of goods and services—is inadequate. Poverty, it is said, is a relative concept. People feel themselves poor by reference to how their standard of living compares with that of the average income receiver. Thus the official poverty threshold should be adjusted to reflect the rising incomes of mainstream America, or defined as some fraction of average or median income. By that kind of definition poverty has not been reduced. In 1957, the 4-person family poverty cut-off was 49 percent of the median 4-person family income. By 1975 it had fallen to 34 percent.

Significant if not spectacular success has been achieved in income maintenance, which the planners of the 1930s saw as the critical problem, overwhelmed as they were by the needs of the aged and unemployed whose earnings were lost or interrupted. The great social insurance programs have provided income for millions. Even though a sizable share of the OASDI benefits go to people with incomes above the poverty line, thus benefiting the middle classes, it has been estimated that about half of the beneficiaries have been removed from poverty or prevented from falling into it. And the unemployment insurance system, inadequate as it may be, has enabled this country to come through a serious depression in recent years without the great social unrest that occurred in the early '30s. It permitted the vast majority of the unemployed and their families to weather the storm without being forced to seek public assistance.

We must also recognize that some of our present problems are attributable to developments the policymakers of the 1930s could hardly have foreseen. Inflation, for example, has had an adverse impact on all our programs, and notably increased their dollar cost. Nor could we have been expected to foresee changes in sexual morality and behavior, especially as affecting the young, which has helped make family breakdown a major cause of economic insecurity. The increasing numbers of married women and mothers in paid employment is another unforeseen social change that causes problems for OASDI by challenging the program's original concept, namely that married women were dependents of their husbands. The change has also created a new social problem: the provision of day care for children of working mothers.

Nor could the planners of the 1930s have foreseen the change of objective in recent years, following the rediscovery of poverty: a change from income *maintenance* to income *security*.

The Sins of Omission

But after making these allowances, we must face the fact that a number of things did indeed go wrong. First, to quote from the Book of Common Prayer, "We have left undone those things that we ought to have done." Already in 1941, Sir William Beveridge, as he then was, in the world famous

Beveridge Report on Social Insurance had warned that an income security system could operate successfully only if certain conditions were fulfilled. Among these were the assurance of full employment, the establishment of a national health service, and a system of children's allowances. We have failed to heed this warning.

Indeed, in regard to full employment we are even worse off than in the 1930s, when an extensive series of public employment programs, e.g., Works Progress Administration (WPA), Civilian Conservation Corps (CCC), and National Youth Administration (NYA), employed at one time over 3½ million people, and there were also expanded public works in the conventional sense. Except for Medicare, which meets only part of the out-of-pocket medical expenses of the aged, we have not developed a national health service in its own right. Medicaid is still administered and thought of as part of an income-maintenance program, the costs of which are chargeable to the welfare system. We have hardly even begun to discuss children's allowances.

Another sin of omission is our failure to ensure that the separation of services from the making of cash payments did not in fact practically eliminate services for those most in need of them. I still believe that the policy of separation was right. But in its implementation attention should have been paid to developing organizations and staff motivated and able to ensure identification of those most in need of counseling and related services—an outreach program if you like—and the rendering of services when need was found. Instead, separation has too often been seen as an opportunity to replace higher paid caseworkers with lower paid non-professionals for the cash-paying program, with no corresponding expansion of the service component.

Finally, a major sin of omission is the country's unwillingness to devote adequate financial resources to our social problems. Certainly we have not transferred income to the poor in an amount sufficient to change the unequal distribution of incomes, which has remained remarkably stable over recent decades.

The Sins of Commission

We left undone some of the things we ought to have done. And we have also done some of the things we should not have done.

We expected too much of social insurance. A wage-related benefit system such as ours cannot, at one and the same time, relate benefits to previous earnings in a meaningful way while also assuring sufficient benefits to provide very low paid or irregular earners a sufficient standard of living above the poverty level. If the system were to guarantee a high minimum benefit, the wage-related principle would force the payment of very high benefits to higher wage earners, thus earmarking an unduly high proportion of national output to the aged as a group.

We have also expected too much of social insurance in health services. The insurance concept limits benefits to the insured, i.e., those who have contributed. This is reasonable enough in a system paying cash benefits, but makes no sense at all in a program whose object is, or should be, to make medical care available to all who need it, whether "insured" or not. "Insured status" is a device for excluding people. But if the objective is to make medical care available to all who need it, *no one* should be excluded.

Because social insurance is essentially an instrument for collecting and paying out money, it is also an inadequate answer to the problems of our health services. These include not merely overcoming the financial barrier to needed care, but also dealing with cost containment, improvement of the delivery system, and assurance of good quality services in all parts of the country.

We have applied irrational priorities. If we assume that the nation is unable or unwilling to assure an adequate or acceptable standard of living to all, selection has been inevitable. Priority might reasonably have been given to children as the group most vulnerable and at the same time having the greatest potential value to society as a human resource. The opposite has been the case. The Aid to Families with Dependent Children (AFDC) program, which provides social income to the largest number of children, makes monthly payments that are unjustifiably lower than those for the adult categories. Even in the OASDI program, children are at a relative disadvantage because of the application of the maximum family benefit ceiling.

Moreover, if adequate health services, or even the removal of the fiscal barriers, were not to be available to all, would a rational society then give preference to the aged rather than to the children? In the economic interests of society, an investment in the health of children would pay real dividends. Children are the producers of the future, and a healthier future working population should more than repay society's investment through greater productivity. The aged on the other hand have relatively few years, if any, when they can contribute to production, even if the health program succeeded in improving their health. Children also offer the best opportunity for the application of preventive measures, about which we talk so much and do so little.

Even if political pressures were so great that something had to be done for the aged, we ought surely to have redressed the balance by also providing an adequate, universally available, health service for children.

We have also given a low priority to the needs of youth. There is a crying need of jobs for young people, jobs that can open the door to the mainstream of our society. We have effectively cut off many millions of young people from participation in the way of life glorified by the American work ethic. We have not heeded the rising delinquency among teenagers and young people warning us of the consequences of prolonged and hopeless idleness among the young.

According to the rhetoric, the family system is one of our most cherished institutions. Thus one would have expected that we would have given a high priority to strengthening the family system. Not so. Our welfare system contains provisions tending to reward family breakup: the intact family is often at a disadvantage in obtaining social benefits, as compared to the broken family. We devote far too few resources to measures to prevent family breakdown or the formation of single parent families. These efforts could take the form of making birth control and abortion universally available, or the provision of counselling services to help families stay together or, if the family is broken, to help the single parents, especially the young ones, to cope.

We weaken the sense of family cohesion by deducting from welfare or SSI grants the amounts of gifts from relatives in the form of Sunday dinners or other small supplements to the meagre standard of living assured by public payments.

We negate all our pronouncements about the importance of home life and the children's needs for adequate parenting by devoting much effort to encouraging--or forcing--the heads of fatherless families to take paid jobs. We glorify work--but only *paid* work--forgetting that a decent job of bringing up a family and managing a household is also productive work. But we recognize it as work only if a woman engages in the effort for someone else's family--for pay--not when she does the work for her own family.

We have relied too heavily on federal leadership. Since the 1930s we have relied too heavily on the leadership and efforts of the federal government. It has been far easier to depend on a standard inserted in a federal law, with financial penalties for non-conformity (notably in the Social Security Act) to effect policy changes instead of undertaking the hard and time-consuming work needed to convince state legislators and electorates that the policy is desirable and should be supported. While the federal government remained generally more liberal and concerned than the states--surely the case in the 1930s--heavy reliance on federal leadership was probably inevitable. It brought about many desirable changes in welfare policies. But the situation is very different in times when the federal government is less liberal, and much progress may be lost if the only reason for adopting needed policies has been previous federal pressure, not state and local conviction.

Heavy reliance on federal action is, of course, largely responsible for the complaints about federal intervention in welfare policy implementation and administration in the states. Yet it is unrealistic to expect the federal government to supply a significant or even major share of welfare expenditures, without also attempting to see that funds are used for the purpose intended, and that federal financial interests are protected.

We have overburdened the welfare system. Our fourth sin of commission is placing an intolerable burden on the welfare system.

First, we forced it to bear the burden of failure to develop other, more socially and economically desirable approaches to poverty; many of them preventive. The enormous increase in the numbers of people dependent on the welfare system should have stimulated a major revision of the financing arrangements but has not yet done so. It may have been realistic to expect states and localities to bear a sizable share of welfare costs, or even all, when the caseloads were small. But growing numbers make the welfare budget one of the highest that some of our states and localities confront, exceeding even education. This is especially true where there are concentrations of the poor. In short, this situation surely calls for massive federal aid. We have placed too much of the burden on states and localities, whose other social service responsibilities have also increased considerably.

Second, we have developed a welfare system characterized by excessive individualization. That is, the system tries to ensure that all people in similar circumstances are treated precisely alike, while also giving additional assistance to those who have special needs. This sounds admirable, but can be carried too far. The effort to ensure precise equality of treatment has resulted in an incredibly and fussily detailed system that takes account of every conceivable resource of each individual case, in determining a person's eligibility. Attention to the applicant's special needs, unless the concept of special need is narrowly defined, can involve lengthy and detailed investigation of the circumstances of each individual case – and there are millions of cases!

Proper administration of the present system in strict accordance with these detailed rules and regulations, and with fairness to each individual applicant or recipient, would entail a bureaucracy far larger and probably better trained and more highly paid than the one we complain about now. Seeking such precision in adjustment of benefits to the special needs and circumstances of each individual case might make sense in a limited program dealing with very few people, most of whom could be personally known to the administrator. But it makes no sense at all in a public program dealing with millions. It is just plain unworkable and we should admit this. The result is an impossible task for the administrator, with accompanying charges and allegations of admission of ineligibles, and under- or over-payments. It also forces on the applicant or recipient an unhealthy degree of dependence on the administrator. Moreover it offers too many opportunities for those who are so inclined to "beat the system."

Third, the welfare system has been saddled with responsibilities properly belonging to other specialized government agencies. Two are obvious. When the welfare system reimburses the clients for "rent as paid," when acceptable housing at reasonable cost is in short supply, even if some upper limit is applied, the welfare system is in fact subsidizing rents. That function properly belongs to the housing authorities. This arrangement not only inflates the costs of welfare programs, but also conceals the extent and true cost of failures in our housing policies and programs.

Similarly the welfare system has been required to carry the costs of health services secured by the poor through Medicaid. It was extremely unfortunate that the 1965 law placed the determination of financial eligibility for Medicaid in the hands of the welfare departments. This identified the program as a "welfare" program, and encouraged placing its total administration and costs in the welfare budget, rather than in the health budget.

In yet a third area the welfare system has been required to carry responsibilities rightfully belonging elsewhere. I refer to tax collecting. When the welfare system assesses resources, to be weighed against the needs standard, all or some part of a person's earnings are treated as available income. But this is tantamount, as the economists remind us, to levying a tax on earnings, e.g., if there is a 25 percent "disregard," the earner is taxed at 75 percent on his earnings—he can keep only 25 percent. Why should the welfare department, rather than the Internal Revenue Service, get involved in tax collecting, including the setting of policy as to tax rates?

We even try to use the welfare system to make up for the deficiencies in the educational system. Thus we seek to develop day care programs that are not just custodial, but that also contribute significantly to children's educational development.

WHAT SHOULD OUR FUTURE AGENDA BE?

I have sought to identify what went wrong in the last 40 years, because knowing past mistakes may help avoid repeating similar errors in the future. My analysis suggests some major policy changes.

Some Obvious Steps

First, we must devote major efforts to developing new programs not now identified as welfare. We must concentrate on assuring full employment—by whatever means and however defined—whether through the private sector or by public job programs. We must develop a national health program, preferably in the form of a national health service. At the very least we must have a national health insurance system that removes the financial barrier to needed medical care, and protects those who receive it from financial ruin. Either of these programs must actually encourage preventive health services. We must strive to provide universal access to birth control and abortion information and services.

We should progressively raise the legal minimum wage for adults.

Such improvements in the economic and social infrastructure are desirable in their own right, for the general improvement of living standards. But they are crucial to our present concerns, being indispensable to achievement of the major immediate goal of welfare reform: namely reducing the size of the population dependent on welfare.

Second, our priorities must be reordered. If we cannot do everything that is desirable, we must give priority to children and youth, and to strengthening the family, and especially the intact family.

Third, we must make the fullest possible use of social insurance. In view of what I previously said regarding this institution's capabilities and limits, this means extending coverage of existing insurance systems to all workers now excluded. We should also apply social insurance to risks now inadequately covered and notably to temporary disability.

Fourth, we must recognize that even if these steps are taken, sizable numbers of people would still be in poverty, especially in the near future. Implementation of employment and health policies and programs will take time. Meanwhile some provision for the needy must continue. Our wage-related social insurance system cannot assure aged people a level of living above poverty, if their lifetime earnings were low and they have no other resources when retired. Despite the recent growth of fringe benefits such people are numerous and are likely to remain so. Furthermore, any realistic definition of full employment is not likely to mean zero unemployment. There will always be low beneficiaries because of employment irregularity. Even full employment will not solve the income security problem for those lacking income because of family breakdown—especially the female-headed family. Even a significantly higher minimum wage cannot assure all families, however large, an above-poverty standard of living.

Reforming Welfare

At present we rely on the welfare system to provide for these people. For some time to come its clientele will probably be large. Yet even now we could take some steps to improve the system.

One step would be to abandon our efforts to assure a high degree of individualization and so much detailed precision in equality of treatment. Wherever possible we should move to flat grants based on average need, with standard rent allowances and needed rent subsidies provided by the housing authorities.

Even in the case of so-called discretionary allowances, we should identify groups with special needs and provide for them by automatic flat allowances.

For example, we could recognize that people on relief for a long time will need periodic replacement of certain household supplies. Thus we could provide an automatic annual allowance for all long-time recipients. Why not recognize, that after a certain age, 70, 75, or 80, most people have to pay for certain services they are no longer physically able to perform for themselves? A flat automatic supplement for persons have a specified age would acknowledge and provide for this need. Similarly in the treatment of resources in determining eligibility, why not use a standard deduction for work expenses?

Of course under such policies some people will fare better than others: the worker whose actual work expenses are less than the standard allowance, for example, or the recipient lucky enough to pay lower rent than the standard allowance, or the fortunate aged person who suffers no impairment of physical faculties. But these differences we have to accept when dealing with millions of people, or else create a huge and costly paperwork system.

Reduced individualization has major advantages. It greatly simplifies administration. It encourages self-reliance and more responsible management of family income. It avoids a state of dependency, where people expect the welfare system to satisfy their needs on an item-by-item basis, including compensating for their own carelessness or incompetence.

Standard payments and allowances would also facilitate identification of those who cannot manage on the established allowance. If the standard amount is reasonable, many such cases are likely to need non-monetary help. Availability of adequate counseling and casework services is an essential pre-requisite for helping some recipients to manage on their welfare income and to cope with their dependent status, even if it does not remove people from the relief rolls.

So long as we retain several means-tested programs, further simplification for applicants, recipients and administrators could be assured by unifying the definitions of income and resources, where possible. Why should some programs define countable earnings by deducting Social Security and/or income taxes, and others not? Why do some allow varying deductions for work expenses and others not? Should we not adopt Internal Revenue Service definitions of income, thus treating the dependent population like all other income receivers? Why should one definition of income apply when the government collects, and another when it pays out?

Greater financial responsibility by the federal government is an obvious step, preferably in the form of federal responsibility, as in SSI for a basic national standard with uniform eligibility conditions federally administered. The level of the federal standard would determine whether or not the federal government should share in the costs of any state supplementation. Thus the higher the federal standard, the less the justification for federal participation in state supplementation. The more we can reduce the role of the shared federal and state programs the better, for this will reduce the states' need to conform to increasingly numerous and complex federal rules and regulations.

Fundamental Weaknesses: The Gap-Filling Principle

All these steps would help. But the welfare system has some fundamental weaknesses that cannot be alleviated, because they are inherent in the very principle on which the system is based. I have termed it the *gap-filling principle*. That is, society sets a target income, and then tries to fill all or part of the gap between the target and an individual's or a family's resources. But what resources should be taken into consideration? Counting everything, especially earnings and savings, clearly discourages work and savings. Recognition of this danger has led to increasing utilization of "disregards"—to use the language of social welfare, or "the tax rate," as the economists would say. Thus a portion of earnings is disregarded in determining eligibility. But how much? A low disregard, e.g., allowing the applicant to "keep for himself" only 25 percent of his earnings is unlikely to stimulate his work incentive. It also has the unfortunate result of taxing the welfare recipient at a higher marginal rate—i.e., 75 percent—than is paid by the wealthiest income receivers.

On the other hand, a high disregard has the disadvantage of greatly increasing the program's cost. It raises the payments made to the existing welfare population, and makes people with higher incomes eligible for benefits. Thus with a target income of $5,000 for a family of four, and a 50 percent disregard, those with earnings of up to $10,000 will be eligible for some welfare benefits. This dilemma, also faced by the Negative Income Tax—in principle another "gap-filling" program—has not been resolved. In my judgment it cannot be, except by lowering of the target income, whereupon the program can no longer be a major instrument for eliminating poverty.

Gap-filling also raises difficult questions concerning the accounting period. Is eligibility to be based on income over the previous year or quarter, or, is it to be prospective or current income? All have disadvantages.

But above all, the gap-filling approach, accompanied by all these dubious provisions to protect initiative, involves a highly undesirable investigation of the personal circumstances of millions of people.

An Alternative Approach

Looking ahead to the more distant future, we must recognize fatal flaws in the gap-filling approach to the elimination of poverty, namely its inability to deal with the problem of work incentive and its detailed investigation of individuals. Let us be clear as to our objectives. We need a system that (1) puts money in people's hands when they need it, (2) that is predictable and dependable in the amounts provided so the recipient can budget his expenditures, (3) that assists the working poor, (4) that does not require detailed investigation of recipients' personal circumstances, and is simple to administer, (5) that does not discourage initiative, and (6) that treats recipients tax-wise the same as all other income receivers are treated by Internal Revenue; finally, (7) that offers no inducements to family breakdown, and (8) that does not involve heavy and unequally distributed burdens on state and local governments.

A System of Demogrants

The only way to achieve the objectives outlined is to replace the present gap-filling programs by a system of universal taxable demogrants. The demogrant is a system for distributing benefits to people on the basis of their possession of some demographic characteristic such as being above or below some specified age or being a member of a country's total population. Under such a system a flat sum (lower for children than for adults) would be payable periodically to every individual regardless of resources or income. At the end of each taxable year everyone would be liable to income tax on his previous year's income, including the demogrant.

Such a system, whether called Demogrant, or National Income Supplement, or Cashable Tax Credit, would not be a disincentive to working and earning, except for any disincentive felt by all income receivers as a result of the general tax system. There would be no discrimination in tax rates between those whose income is derived partly or wholly from the welfare system, and all other earners. Payments would be made on an individual, not a family basis, removing inducements for family break up.

Demograants would assist that neglected group, the working poor, without forcing them to become "welfare clients" in order to receive needed income supplementation. Administrative costs would be reduced to a minimum. Taxes would no longer be collected by welfare authorities, but by the Internal Revenue Service. The policy question of how much people should contribute towards the costs of welfare, as of all other governmental services, would be determined by the national tax system, not by the policies of numerous welfare systems. Above all, we would avoid the disgusting spectacle of millions of people having to come with rent receipts, bank books and other records in hand, to prove that they are indeed poor and entitled to some assistance.

Some may object that much of the demogrant money would go to people who are already above the target income level, that it would be "inefficient," in the economists' terminology. This would be minimized by making the demogrant taxable as part of total income, and by setting marginal tax rates that recoup as much of the grant from higher income receivers as was desired. In any case some "inefficiency" may be the price we must pay for a more desirable program.

Implementation

Of course the implementation of a demogrant system would face many problems. We would need answers to such policy questions as the level of the income guarantee—the amount of the demogrant. Should it be a nationally uniform dollar amount, or vary by regions to reflect cost of living differentials, or by metropolitan or non-metropolitan areas to reflect rent differentials? Should the new policy be introduced all at once? Or should it be introduced by stages, perhaps beginning with a modest initial payment followed by scheduled increases over a number of years? Or should it begin with a demogrant for the aged, or, preferably a Children's Allowance, with subsequent programmed extension to all adults?

There would be problems of integrating the grant with existing social insurance programs, notably OASDI. And such a system would cost money. Of course, there would be savings on existing gap-filling programs like welfare and SSI, and indeed on OASDI if the latter were relieved of trying to assure an adequate minimum income to the poor. Abolishing dependents' exemptions in the income tax system would yield further savings. Nevertheless, the net cost would be sizable, and would necessarily involve higher taxes for receivers of above-poverty levels of income, even though their incomes would also be increased by the amount of the demogrant, i.e., people would have a larger income out of which to pay higher taxes. In any event, the taxable demogrant would involve some measure of income redistribution, but this is inevitable if there is to be a guaranteed income above the poverty level.

An Impossible Dream?

Is this an impossible dream? Perhaps. But I would remind you of two things. First, in the 1920s the idea that within 10 or 15 years the United States would install an extensive and complicated federal social insurance system seemed like an idle dream. And yet it happened. Second, we already use the tax system to provide additional income for some people, as well as taking it away from others. The cashable Earned Income Credit is a valuable precedent, with vast possibilities for extension.

I would urge those who are interested in welfare reform, and especially those who believe in the concept of a universal guarantee of minimum income, to begin grappling with ways and means of implementing the taxable demogrant rather than tinkering with an unreformable gap-filling welfare system. It is a challenging task that cannot be performed by social welfare professionals alone. The many-dimensional problems of social welfare extend into the fields of economists, sociologists and political scientists, and they must also be involved. Only through such collaboration can we hope one day to achieve a lasting "welfare reform."

WELFARE

The Political Economy
of Welfare Reform
in the United States

(by Martin Anderson)

V

THE EFFECT OF WELFARE ON WORK

Work keeps at bay three great evils:
boredom, vice, and need.

Voltaire, 1759

Fifth Thesis: *The institution of a guaranteed income will cause a substantial reduction—perhaps as much as 50 percent—in the work effort of low-income workers. As long feared by the public, and recently confirmed by independent research studies, such a massive withdrawal from the work force would have the most profound and far-reaching social and economic consequences for our society.*

One of the most important questions that should be asked about any radical welfare reform plan that promises to guarantee incomes is: What effect will it have on the work effort of the poor? Most Americans still believe very strongly in the work ethic. If millions of low-income Americans "retired" from the labor force to live on their income guarantees, there is little question that intense political controversy would follow. Those receiving the guarantee could become a powerful political force, demanding and getting ever-increasing benefits. There would certainly be some negative effect on the economy if large numbers of people stopped working or reduced the number of hours they worked.

A major reduction in the work effort of the low-income population would have endless ramifications—socially, economically, and politically—and the speculation on what the consequences of these ramifications might be is also endless. There seems to be little disagreement with the proposition that any substantial reduction in the work effort of the low-income population would pose the danger of profound, far-reaching social and economic consequences. There is, however, a great deal of uncertainty about whether guaranteeing incomes would really cause the recipients to stop working en masse. And speculation on the possible consequences is idle unless we have sufficient reason to suspect that it might, in fact, happen.

Most people have what, to them, seems a common-sense view of a guaranteed income. If someone has the option of working or not working to obtain the same or virtually the same amount of income, all other things being equal, he will choose not to work. In some cases, of course, social factors such as the work ethic, pride, and what his neighbors might think will induce him to keep on working. But what if a guaranteed income plan should become so widespread that large numbers of his fellow workers in the same income bracket choose not to work, and the social pressure directed against him becomes a pressure not to work? In recent years we have seen such a change in our existing welfare system. Partly because of the sharp increase in the number of people on welfare, and partly because of the efforts of "welfare rights" groups, the stigma of being on welfare seems to have been substantially attenuated. Many on welfare today feel no compunction whatsoever about receiving it, often asserting that they have a right to it. Some workers, who gain great psychological satisfaction from their work, may choose to continue what they are doing in spite of the guarantee. But how many low-income jobs provide that kind of psychological satisfaction? Without actually trying a nationwide guaranteed income, and relying on what we know (or what we think we know) of human nature, it seems reasonable to assume that the fears of large numbers of people quitting work to live off the dole are not unfounded, and that such a possibility is fraught with dangers for our society. As Arthur F. Burns has observed in regard to a guaranteed income, "It seems inescapable that more and more people would make the purely rational decision to remain idle rather than work. [There's a great risk] of a corrosive effect on moral values and attitudes, not only in the case of recipient adults but on their children as well."[1]

This fear is not new. Centuries ago there was concern that giving money to the poor might encourage idleness. As Irwin Garfinkel noted in a paper prepared for the use of the Subcommittee on Fiscal Policy of the Joint Economic Committee in 1974, "The very first parliamentary act which dealt with poverty, the Statute of Laborers in 1349, actually forbade *private* alms-giving to the able-bodied poor. The rationale was that such aid encouraged idleness and other supposedly related moral vices."[2] Over six centuries have passed and many things about welfare have changed, but the basic concern about man's inclination to work when given the alternative of a substantial income guarantee is still with us.

We know that if we increase the effective tax rate closer and closer to 100 percent, a person's incentive to work is diminished. At 100 percent he gets nothing but whatever psychological pleasure there is in the work. Conceivably, under certain circumstances he might continue to work as the rate surpassed 100 percent. But this would be an unusual case.

What happens when a person is guaranteed the same amount of income, or some amount close to it, whether he works or not? *A priori*, we would expect that as the amount he received moved closer and closer to the amount he would receive if he worked, he would work less and less. If the amount of guaranteed income surpassed the amount he could earn by working, the disinclination to work would be even greater. The higher the guarantee relative to the amount he could earn by working, the less inclined the person would be to work – except, of course, for the psychological benefits involved.

The effect of increased income on a person's work effort has been studied intensely by economists for many years, and among them there is almost unanimous theoretical agreement that a guaranteed income would cause significant numbers of people to cease working or reduce the number of hours worked. "Economists assume that, other things being equal, an individual would rather use his time for a nonmarket activity such as leisure than for market work. . . . Increases in income will lead to decreases in market work. Thus, guarantees in income transfer programs lead to reductions in labor supply. Moreover, the larger the guarantee, the greater the capacity of the individual to afford to work less, and hence, the greater the reduction in market work."[3]

But this, of course, is theory. And no matter how convinced we may be in our own minds that many people would gladly swap the cacophony of an alarm clock at 7 o'clock every morning and the necessity of doing what someone else wants them to do forty hours a week, fifty weeks a year, for a leisurely rising time and the freedom to pursue their personal interests, we are still not completely sure what would happen if a real guaranteed income should come to the United States.

Advocates of a guaranteed income themselves have few qualms about the possible adverse affects on our society. Commenting on the psychological aspects of a guaranteed income, psychologist Erich Fromm, an ardent advocate of such a plan, acknowledges that "the most obvious question is whether a guaranteed income would not reduce the incentive to work," but then quickly lays this concern to rest as he continues, "Man, by nature, is not lazy, but on the contrary, suffers from the results of inactivity. People might prefer not to work for one or two months, but the vast majority would *beg to work*. . . . Misuse of the guarantee would disappear after a short time, just as people would not overeat on sweets after a couple of weeks, assuming they would not have to pay for them."[4]

In spite of such enthusiastic professional opinion, a few nagging doubts do remain. Have the economists been wrong in their theory all these years? Are the common-sense instincts of the average American in error? Will a large segment of our society, perhaps as many as 30 or 40 million people, now on welfare or earning relatively low incomes proceed much as they did before they discovered that a reasonably high level of income is guaranteed, whether they work or not? Or will they stop working in significant numbers?

As with all social policy there is no sure answer. There is no foolproof way to know what the social and economic consequences of a new, radical social welfare plan will be until many years after we implement it. When the military draft was ended by President Nixon in 1971, many people feared that our military strength would be sharply reduced as both the number and the quality of recruits dropped. They also predicted an all-black army, an army composed of the children of the poor, or one made up of the misfits of our society. Fortunately, their predictions were wrong. When a national urban renewal program began back in 1949, many scholars, politicians, and social commentators confidently predicted the rebirth of our nation's cities. But no one predicted that urban renewal would scarcely renew a city block, let alone a city, that it would destroy housing conditions for the very people it set out to help, that it would destroy four homes, most of them occupied by blacks, for every home it built—most of them to be occupied by middle- and upper-income whites.[3]

In the case of the guaranteed income, we are more fortunate. During the last decade or so an impressive body of data has been painstakingly accumulated by scholars and governments analysts that allows us to predict what will happen as a consequence of a guaranteed income with far more confidence than we have been able to predict the results of other social policies in the past. These studies concern the behavior of people, in particular welfare recipients and low-income workers, under conditions that simulate to some degree the conditions that would exist under a guaranteed income. Individually, their results are rather tentative and inconclusive. Taken together, their findings are inescapably clear—and alarming.

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If we look fa, enough back in the dusty history books, there is one classic example of what did happen when an industrialized society tried a guaranteed income. To be sure, the experience is not totally transferable as it took place in England during the early nineteenth century, and many aspects of the English economy were quite different from that of the United States in the twentieth century. But it did happen, and it is the only example of such a policy being applied in an English-speaking, industrialized country similar to our own. The history lesson is disquieting.

The following excerpt on the history of the Speenhamland Law, which was in effect in England from 1795 to 1834, is taken from Karl Polanyi's well-known historical work, *The Great Transformation*.

> ... The justices of Berkshire, meeting at the Pelikan Inn, in Speenhamland, near Newbury, on May 6, 1795, in time of great distress, decided that subsidies in aid of wages should be granted in accordance with a scale dependent upon the price of bread, so that a minimum income should be assured to the poor *irrespective of their earnings*.
>
> The magistrates' famous recommendation ran: When the gallon loaf of bread of definite quality "shall cost 1 shilling, then every poor and industrious person shall have for his support 3 shillings weekly, either procured by his own or his family's labor, *or an allowance from the poor rates*, and for the support of his wife and every other of his family, 1 shilling, 6 pence; when the gallon loaf shall cost 1/6, then 4 shillings weekly, plus 1/10; on every pence which the bread prices raises above 1 shilling he shall have 3 pence for himself and 1 pence for the others." The figures varied somewhat in various counties, but in most cases the Speenhamland *scale* was adopted. This was meant as an emergency measure, and was informally introduced. Although commonly called a law, *the scale itself was never enacted.*

Yet very soon it became the law of the land over most of the countryside, and later even in a number of manufacturing districts; actually it introduced no less a social and economic innovation than the "right to live," and until abolished in 1834, it effectively prevented the establishment of a competitive labor market. Two years earlier, in 1832, the middle class had forced its way to power, partly in order to remove this obstacle to the new capitalistic economy. Indeed, nothing could be more obvious than that the wage system imperatively demanded the withdrawal of the "right to live" as proclaimed in Speenhamland—under the new regime of the economic man, nobody would work for a wage if he could make a living by doing nothing.

Another feature of the reversal of the Speenhamland method was less obvious to most nineteenth century writers, namely, that the wage system had to be made universal in the interest also of the wage earners themselves, even though this meant depriving them of their legal claim to subsistence. The "right to live" had proved a deathtrap.

The paradox was merely apparent. Allegedly, Speenhamland meant that the Poor Law was to be administered liberally—actually, it was turned into the opposite of its original intent. Under Elizabethan Law the poor were forced to work at whatever wages they could get and only those who could obtain no work were entitled to relief; relief *in aid of wages* was neither intended nor given. Under the Speenhamland Law a man was relieved even if he was in employment, as long as his wages amounted to less than the family income granted him by the scale.

Hence, no laborer had any material interest in satisfying his employer, his income being the same whatever wages he earned; this was different only in the case standard wages, *i.e.*, the wages actually paid, exceeded the scale, an occurrence which was not the rule in the countryside since the employer could obtain labor at almost any wages; however little he paid, the subsidy from the rates brought the workers' income up to scale.

Within a few years the productivity of labor began to sink to that of pauper labor, thus providing an added reason for em‸ ‸yers not to raise wages above the scale. For, once the intensity of labor, the care and efficiency with which it was performed, dropped below a definite level, it became indistinguishable from "boondoggling" or the semblance of work maintained for the sake of appearances. Though in principle work was still enforced, in practice outdoor relief became general and even when relief was administered in the poorhouse the enforced occupation of the inmates now hardly deserved the name of work. This amounted to the abandonment of Tudor legislation not for the sake of less but of more paternalism. The extension of outdoor relief, the introduction of aid-in-wages supplemented by separate allowances for wife and children, each item rising and falling with the bread price, meant a dramatic re-entry in regard to labor of that same regulative principle that was being rapidly eliminated in regard to industrial life as a whole.

No measure was ever more universally popular. Parents were free of the care of their children, and children were no more dependent upon parents; employers could reduce wages at will and laborers were safe from hunger whether they were busy or slack; humanitarians applauded the measure as an act of mercy even though not of justice and the selfish gladly consoled themselves with the thought that though it was merciful at least it was not liberal; and even ratepayers [taxpayers] were slow to realize what would happen to the rates under a system which proclaimed the "right to live" whether a man earned a living wage or not.

In the long run the result was ghastly. Although it took some time till the self-respect of the common man sank to the low point where he preferred poor relief to wages, his wages which were subsidized from public funds were bound eventually to be bottomless, and to force him upon the rates.

Little by little the people of the countryside were pauperized; the adage, "once upon the rates, always on the rates" was a true saying. But for the protracted effects of the allowance system, it would be impossible to explain the human and social degradation of early capitalism.

The Speenhamland episode revealed to the people of the leading country of the century the true nature of the social adventure on which they were embarking. Neither the rulers nor the ruled ever forgot the lessons of that fool's paradise; if the Reform Bill of 1832 and the Poor Law Amendment of 1834 were commonly regarded as the starting point of modern capitalism, it was because they put an end to the rule of the benevolent landlord and his allowance system. The attempt to create a capitalistic order without a labor market had failed disastrously. The laws governing such an order had asserted themselves and manifested their radical antagonism to the principle of paternalism. The rigor of these laws had become apparent and their violation had been cruelly visited upon those who had disobeyed them.

Under Speenhamland society was rent by two opposing influences, the one emanating from paternalism and protecting labor from the dangers of the market system; the other organizing the elements of production, including land, under a market system, and thus divesting the common people of their former status, compelling them to gain a living by offering their labor for sale, while at the same time depriving their labor of its market value. A new class of employers was being created, but no corresponding class of employees could constitute itself. A new gigantic wave of enclosures was mobilizing the land and producing a rural proletariat, while the "maladministration of the Poor Law" precluded them from gaining a living by their labor.

No wonder that the contemporaries were appalled at the seeming contradiction of an almost miraculous increase in production accompanied by a near starvation of the masses. By 1834, there was a general conviction—with many thinking people a passionately held conviction—that anything was preferable to the continuance of Speenhamland. Either machines had to be demolished, as the Luddites had tried to do, or a regular labor market had to be created. Thus was mankind forced into the paths of a utopian experiment.

... On the face of it the "right to live" should have stopped wage labor altogether. Standard wages should have gradually dropped to zero, thus putting the actual wage bill wholly on the parish, a procedure which would have made the absurdity of the arrangement manifest. But this was an essentially precapitalistic age, when the common people were still traditionally minded, and far from being directed in their behavior by monetary motives alone. The great majority of the countryfolk were occupier-owners or lifeholders, who preferred any kind of existence to the status of a pauper, even if it was not deliberately burdened by irksome or ignominious disabilities, as subsequently happened. If laborers had been free to combine for the furtherance of their interests, the allowance system might, of course, have had a contrary effect on standard wages: for trade union action would have been greatly helped by the relief of the unemployed implied in so liberal an administration of the Poor Law. That was presumably one of the reasons for the unjust Anti-Combination Laws of 1799-1800, which would be otherwise hardly explicable since the Berkshire magistrates and members of Parliament were both, on the whole, concerned about the economic condition of the poor, and after 1797 unrest had subsided. Indeed, it might be argued that the paternalistic intervention of Speenhamland called forth the Anti-Combination Laws, a further intervention, but for which Speenhamland might have had the effect of raising wages instead of depressing them as it actually did. In conjunction with the Anti-Combination Laws, which were not revoked for another quarter century, Speenhamland led to the ironical result that the financially implemented "right to live" eventually ruined the people whom it was ostensibly designed to succor.

To later generations nothing could have been more patent than the mutual incompatibility of institutions like the wage system and the "right to live," or, in other words, than the impossibility of a functioning capitalistic order as long as wages were subsidized from public funds. But the contemporaries did not comprehend the order for which they were preparing the way. Only when a grave deterioration of the productive capacity of the masses resulted—a veritable national calamity which was obstructing the progress of machine civilization—did the necessity of abolishing the unconditional right of the poor to relief impose itself upon the consciousness of the community. The complicated economics of Speenhamland transcended the comprehension of even the most expert observers of the time; but the conclusion appeared only the more compelling that aid-in-wages must be inherently vicious, since it miraculously injured even those who received it.

The pitfalls of the market system were not readily apparent. To realize this clearly we must distinguish between the various vicissitudes to which the laboring people were exposed in England since the coming of the machine; first, those of the Speenhamland period, 1795 to 1834; second, the hardships caused by the Poor Law Reform, in the decade following 1834; third, the deleterious effects of a competitive labor market after 1834, until in the 1870's the recognition of the trade unions offered sufficient protection. Chronologically, Speenhamland antedated market economy; the decade of the Poor Law Reform Act was a transition to that economy. The last period—overlapping the former—was that of market economy proper. The three periods differed sharply.

Speenhamland was designed to prevent the proletarianization of the common people, or at least to slow it down. The outcome was merely the pauperization of the masses, who almost lost their human shape in the process.[8]

In more recent times there have been three major types of research studies that attempt to estimate the effect of radical welfare reform plans on the work effort of the poor and the near-poor. The first type is based on an analysis of existing welfare programs, of how people now welfare have changed, or not changed, their attitude toward work. The second type, called the "cross-section" study, is essentially an economic and statistical analysis of large quantities of survey data showing how people tend to behave when faced with cash transfer payments and increasingly high marginal tax rates. The third type is composed of a series of direct experiments in which selected families were "given" a form of a guaranteed income and their actions were closely observed and analyzed. All three types of studies have the same goal: to judge the effect of guaranteed welfare payments on the work effort of those who would receive them.

The first group of studies focused on the work effort of mothers in the AFDC program. In the late 1960s Leonard Hausman, a professor of economics and social policy at Brandeis University, analyzed a survey of 50,000 AFDC families taken in late 1967. A goldmine of economic and social data, it included information on the earned income, welfare payments, and hours of work for AFDC mothers in all fifty states. Choosing three states - Alabama, Kentucky, and Mississippi—that "guaranteed different levels of income in the absence of non-welfare income." Hausman developed an economic model that would allow him to make "estimates of the impact of alternative implicit tax rate and guarantee levels embodied in a new income maintenance program on the work effort of female-heads of poor families."[9]

Hausman's findings are clear. He found that an increase in the monthly AFDC payment from $82 to $162 caused a decline of over 36 percent in the market work effort of these female-headed welfare families. In his conclusions he comments that, "if they [AFDC mothers] can reach income targets with less work effort, they will reduce that effort—something that is not implausible for mothers of young children."[8] In a 1974 paper for the Joint Economic Committee, Irwin Garfinkel of the Institute for Research on Poverty at the University of Wisconsin commented further on the implications of Hausman's research results: "If extrapolated, his estimates suggest that a $1,000 increase in the guarantee would lead to a 40-percent decrease in employment rates, while a 10-percent increase in the benefit-loss rate [welfare tax rate] would lead to a 4-percent decrease in employment rates."[9]

A second study of the effect of welfare on the work effort of AFDC mothers was conducted by Larry Orr and Irwin Garfinkel. Their results were similar, though not as alarmingly high. They found that "on average the employment rates of AFDC mothers decreased by about 4.5 percent as the annual guarantee increased by $1,000 . . . [and] that a $1,000 increase in the guarantee had a larger effect the smaller the initial guarantee. An increase from a $500 guarantee to a $1,500 guarantee, for example, led to a decrease in employment rates of about 14 percent."[10]

There is no question about the results of welfare programs on the market work effort of welfare mothers. The higher the welfare payment is relative to what welfare mothers could earn by working outside the home, the less likely they are to work. And the higher the welfare tax imposed on those earnings, the less likely they are to work. In these welfare studies, "the empirical evidence uniformly suggests that the labor supply of female heads of households, like that of wives, is highly responsive both to the amounts of income that they get from sources other than employment and to the net monetary rewards that they can get from working."[11] In other words, female heads of households will substantially reduce the amount of market work they do if they are guaranteed an income in the range envisaged by any of the radical welfare reform plans now being discussed. This effect will be exacerbated if the plan also imposes a high welfare tax on any earned income.

Of even greater interest than the work response of welfare mothers is the question of what would happen to the work effort of millions of low-income male workers, most of them not now on welfare, if they became eligible for some form of a guaranteed income. The second group of studies, those based on the economic and statistical analysis of survey data, focused on possible changes in the work effort of such men. In recent years there have been at least a dozen such studies, including eight major ones by distinguished economists from leading universities and research institutions and from the federal government.

Since all economic studies of this kind are based on aggregate statistical data and are concerned with trying to predict the economic behavior of man, they are inherently imprecise. Nevertheless, the unanimity and consistency of the research findings of these eight studies allow us to place a great deal of confidence in their conclusions—not for making precise quantitative predictions, but rather for estimating the direction and order of magnitude of changes in the work effort of low-income men that are likely to take place if they become eligible for a guaranteed income.

Each of these studies produced evidence that husbands with family responsibilities would substantially reduce their work effort if they were to participate in a radical welfare reform plan that would guarantee them a basic income. The higher the guaranteed income, the more the men would reduce their work effort. The higher the welfare tax rate on earned income, the more they would reduce their work effort. While the estimated degree by which they would reduce their work effort—either by quitting their jobs or by reducing the number of hours worked—varied from study to study, every study concluded that the reduction would be significant.* [12]

* The average total-income elasticity calculated for the eight studies is approximately −0.30 with a standard deviation of 0.18. The average substitution elasticity is +0.27 with a standard deviation of 0.29.

In one of the studies, Greenberg and Kosters simulated what would happen if a radical welfare reform program similar to President Nixon's Family Assistance Plan were implemented. They concluded that married male heads of participating families would substantially reduce their work effort. Even though they used a relatively low income guarantee of only $3,500 for a family of four, and a welfare tax rate of 75 percent, it was still estimated that working men with family responsibilities would reduce the number of hours they worked by 29 percent"[13]—or, looking at it another way, take the equivalent of fifteen additional weeks of vacation every year. A higher income guarantee of $5,000 or $6,000 a year, which would probably be necessary to make a guaranteed income politically feasible, would imply a substantially greater reduction in work effort.

In a later, unpublished study, "Labor Supply and the Negative Income Tax," Kalachek and Raines used the statistical results of their earlier study to develop an economic model that would simulate the effects of a guaranteed income with a $2,400 annual guarantee for a family of four and a welfare tax rate of 50 percent. Even using these unrealistically low levels of income guarantees and tax rates, they predicted that the implementation of such a plan "would produce a 46-percent reduction in the labor supply of the eligible population. (Male family members would reduce their labor supply by 37 percent.)"[14]

The findings of these analytical studies with regard to the effect that a guaranteed income would probably have on the work effort of men with family responsibilities are disturbing—especially the economic simulations that suggest massive reductions in work effort when only very low levels of guarantees are implemented. There is little doubt that male heads of families will reduce their work effort if a guaranteed income is introduced. The only remaining question is how much. If the reduction in work effort even begins to approach the levels suggested by the analyses developed by Greenberg and Kosters and by Kalachek and Raines, the potential for social disaster is large.

The last group of studies involves direct social experimentation with actual people. The basic idea is to identify a relatively large group of people (large enough for the results to be "statistically significant") whose members share many of the same economic and social characteristics—such as age, income, education, and size and type of family. The selected group is then divided into two parts: the "control" group and the "experimental" group. The members of the control group are theoretically allowed to continue what they were doing before the experiment started, whereas those in the experimental group live under a set of deliberately varied conditions. In the case of the *guaranteed income experiments*, as they came to be known, members of the experimental group were guaranteed a certain amount of income for a fixed period of time, whether they worked or not. To simulate the diverse conditions that might exist under a real guaranteed income plan, the amount of the income guarantee was varied, as was the size of the welfare tax rate that applied to any earnings members of the experimental group might have.

The most highly publicized guaranteed income experiment was the New Jersey Income Maintenance Experiment. Started in August, 1969, and lasting for approximately three years, it was the first large-scale social experiment conducted in the United States. The total cost of the experiment was $7.8 million. Of this amount, 30 percent went to the recipients and 70 percent went to Mathematica and the University of Wisconsin, the two organizations that administered the study and conducted the research.[15] Participating in the project were 1,357 households—725 in the experimental group and 632 in the control group. The participants came from five cities—four in New Jersey and one in Pennsylvania. The families selected had to have at least one male between the ages of eighteen and fifty-eight who could work and the families' income had to be less than 150 percent of the poverty level at the beginning of the experiment. The maximum income guarantee ranged from 50 percent to 125 percent of the poverty level, and the experimental welfare tax rates ranged from 30 to

70 percent.[16] There was no requirement to work in order to qualify for the benefits, although it was necessary to fill out numerous reports.

The New Jersey guaranteed income experiment quickly became controversial. From the beginning the entire project had been somewhat suspect as being a vehicle by which some OEO and HEW bureaucrats could develop "evidence" for the radical welfare reform plans they had been trying to sell to President Johnson since 1965. According to David Kershaw, who was the field director of the New Jersey experiment, "OEO had advocated a national negative-income-tax program in 1965, had been unable to persuade the President to introduce the legislation, and, therefore, had decided to fund a project *designed to produce hard evidence as to its feasibility*. This evidence, it was assumed, could then *be used to persuade politicians and the American public* that a negative income tax would be good social policy."[17] And when it became clear that the experiment would be "sponsored, designed, and even administered by 'believers' in"[18] a guaranteed income, the skepticism grew.

The conviction that the experiment was designed to come up with a predetermined conclusion that would develop political support for a guaranteed income became widespread. As Henry Aaron has noted in a rather devastating critique of the validity of the experiment: "The experiment originated because advocates of large-scale income support for poor intact families realized that propects for such aid were meager unless it could be shown that the recipients would not stop working en masse. The primary motivation for the experiment, therefore, was political, and it was for political purposes that the Office of Economic Opportunity agreed to spend $8 million."[19]

An unlucky thing happened to the experiment during its second year: it was overtaken by a roiling national debate on Nixon's Family Assistance Plan. The proponents of FAP badly needed some solid evidence to support their claim that the radical welfare reform plan they were proposing would not seriously hinder the work effort of the poor, if at all. The experiment going on just a few miles north of them was too seductive to resist. As Moynihan later related it in his book *The Politics of a Guaranteed Income*, "Inevitably there arose a conflict between the methodological demands of social science and the political needs of Congress and the Administration, and, perhaps just as inevitably, the latter won out. In the course of the FAP debate, the persons conducting the New Jersey experiment 'broke into' their data at the request of the OEO." Not too surprisingly the "preliminary data" revealed that "there is *no evidence* that work effort declined among those receiving income support payments. On the contrary, there is an indication that the work effort of participants receiving payments *increased* relative to the work effort of those not receiving payments."[20]

Inevitably there were charges in the press of "rigging" the experiment. The General Accounting Office audited the findings and declared them to be "premature," while the Senate Finance Committee pressed to ascertain whether it had been presented with a political report or valid experimental data. Those connected with the experiment were naturally sensitive to the charges of "rigging" and denied them. According to Moynihan, "The charge was a lie, but probably believed."[21] Whatever the case, the fact that the final results of the New Jersey experiment showed that "the number employed per family was 9.5 percent less for experimental families than for controls" did not help allay the suspicions that had been sown earlier.[22]

The intense publicity that surrounded the controversial New Jersey experiment has apparently led many people to believe that it was the only experiment of its kind. In fact, it was one of *six* major guaranteed income experiments started at about the same time. The New Jersey experiment focused on the work effort of husbands and wives—black, white, and Spanish-speaking—living in an Eastern urban environment. Two other guaranteed income experiments were set up expressly to measure the work behavior of poor families, including dependents, living in rural areas. Collectively called the "Rural Income Maintenance Experiment," they were carried out in two locations, Iowa and North Carolina. A fourth experiment, the "Gary Income Maintenance Experiment," centered on black families, including female-headed families previously on welfare, in the urban environment of Gary, Indiana. The fifth and sixth experiments took place in Seattle, Washington, and in Denver, Colorado. Called the "Seattle and Denver Income Maintenance Experiments," they focused on the work effort of husbands, wives, and female-headed families.

Before reviewing the findings of the six major guaranteed income experiments it is important to step back and carefully examine the validity of the experiments themselves. The experiments suffered a number of methodological difficulties that seriously biased them in the direction of underestimating the reduction in work effort that would take place under a real, nationwide guaranteed income program.

The first of these is the **Hawthorne Effect**. This phenomenon is characteristic of socioeconomic experiments, and was first clearly identified in 1927 during an experiment at Western Electric Company's Hawthorne Works in Cicero, Illinois: "A group of female workers over a period of almost a year were subjected to measured changes in their hours, wages, rest periods . . . in order to determine the effects of the several factors on their performance or work output. The major deduction was that social and psychological influences gave more marked results than changes in wages and hours, which had long been the chief concern of most managers and economists who had assumed that labour was simply a commodity to be bought and sold. . . . *Merely by asking their cooperation in the test, the investigators had stimulated a new attitude among the employees, who now felt themselves part of an important group.*"

All six of the guaranteed income experiments were classic examples of the Hawthorne Effect. All the participants were subjected to what was, for them, an unusual and extensive amount of personal attention. For example, in the New Jersey experiment each family had a minimum of twenty-two personal interviews over the three-year course of the experiment—two preliminary "screening" interviews, twelve quarterly interviews, and eight special interviews.[24] The interviews were long and detailed and asked an incredible variety of personal and economic questions in over fifty subject areas. They included questions on income, hours worked, net worth, property owned, cost of housing, food expenditures, clothing expenditures, child support costs, marital history, family planning, fertility, educational background, children's homework and chores, division of financial responsibility, religion, hobbies, use of leisure time, medical history, family background, political awareness, number of close friends, frequency of visits by relatives, self-esteem, degree of "conservatism" or "liberalism," attitudes toward work, psychological instability, and even anomie.[25]

A careful reading of the list of questions can easily lead one to wonder what the main purpose of the experiments was—to measure the effect of a guaranteed income on work effort or to amass a new body of sociological data on the working poor. In any event, every family that agreed to participate in the experiments had to "sing for their supper" at least twenty-two times in addition to ad hoc interviews or phone calls that arose for other reasons over the course of the experiment. By the time the New Jersey experiment was over, some 20 percent of the original participants had dropped out. They gave many reasons, such as, "Don't want to be bothered by interviewers. . . . Invasion of privacy."[26]

For the families who stayed with the experiment from beginning to end it was surely an intense experience, and this, unfortunately, is just the sort of thing that biases the results of such experiments. The participants quickly learn what the investigators would like, and then may try to please them by acting accordingly. As Mordecai Kurz, professor of economics at Stanford University, and Robert Spiegelman of the Stanford Research Institute have pointed out, "Hawthorne Effects have become well known. . . . If, for example, families on the income maintenance experiment develop a sense of 'experimental responsibility' they may behave quite differently than a control group without such a sense of responsibility."[22]

It would not be unreasonable to assume that some, and perhaps many, of the participants in the guaranteed income experiment developed such feelings of responsibility. As one wrote to those who had run the New Jersey experiment, "I will miss our little get-togethers once a month by mail. I trust our reports will help somehow in the future of our government. . . . I am writing to let you know how much we really appreciated being a member of the experiment. It was just three wonderful years. . . . We sure wish it could have lasted forever. With the great help of these checks we bought a mobile home."[23]

In some cases the Hawthorne Effect generated by the guaranteed income experiments may have been one of fear, rather than one of trying to please. Many participants in the experiments somehow got the idea that their subsidies would be reduced if they quit or lost their jobs. According to Jacob Mincer, professor of economics at Columbia University, "It is my understanding that after about a year in the rural experiment—and I recall a similar progress report on the urban experiment—25 percent of the families thought that their subsidies would be reduced if they quit or lost a job. I am not sure whether this response represented ignorance of the rules of the game on the part of participants or a conviction prevailing despite the overt rules that proper response to the experimental payments must be in the socially appropriate direction that the experiment set out to demonstrate. Whatever the interpretation, ignorance or attitude, the effects were to diminish the observed disincentive effects."[24] If one-fourth of the participants in the experiment were effectively deterred from any serious consideration of reducing their work effort by this factor alone, it would mean that the amount of work reduction that would take place in the absence of such pressure would be one-third greater than that actually measured.

A second serious bias intrinsic to the guaranteed income experiments stems from the small size of the sample. Let us call it the **Small-Scale Effect.** This effect makes it difficult to project what might happen if a guaranteed income were instituted on a nationwide basis. An isolated family, participating in a short-term experiment, is apt to behave very differently than it might if it were only one of thousands of similar families in the same neighborhood, all of whom were aware that millions more like them were participating across the country. In the latter case, the tendency to reduce one's work effort, either by quitting or by working fewer hours, would likely be much greater. As Henry Aaron has observed, "It is quite possible that an organization of negative income tax recipients, similar to the National Welfare Rights Organization, would spring up that might alter attitudes and behavior."[30] A national group encouraging people to apply for the guarantee, and showing them how to maximize their benefits, could have a dramatic effect in lowering the work effort of the low-income population.

Such potentially powerful negative effects on the work effort of the poor would not show up in a short-term, small-scale guaranteed income experiment. As Michael Boskin, professor of economics at Stanford University, has pointed out, "Any peer group or neighborhood effects wherein the individual labor supply disincentives are reinforced by the decreased labor supply of other low-income workers are unlikely to show up in an experiment that is confined to three years, spread over several sites, and limited to a small percentage of the low-income labor force in each locale. We simply do not know how important these effects would be in response to a generous permanent negative income tax."[31] This view is shared by other experts. For example, Irwin Garfinkel has concluded that "because the experiment was temporary and affected only a proportion of the potentially eligible population, the experimental results do not reflect any labor market or community changes in economic variables or in tastes for income vis-à-vis leisure that might result from a real, permanent program."[32] And Richard Nathan of the Brookings Institution has warned, "Is it not possible that adoption of a so-called 'guaranteed-income' program would be interpreted by the eligible population as a congressional sanction for leisure?"[13]

There seems to be little disagreement with the proposition that a full-scale guaranteed income would induce significant social changes that would result in a greater amount of work reduction than would show up in the experimental results. But no one has a clear idea what the magnitude of this effect might be. And the guaranteed income experiments have not furthered our knowledge in this area because, as Henry Aaron succinctly puts it, "the thinness of the sample and the brevity of the experiment make it impossible to observe the impact of a negative income tax on the mores of entire groups."[14] All we do know is that we can expect, with confidence, to find that a full-scale guaranteed income will result in a substantially greater reduction in the work effort of the low-income population than one would anticipate from perusing the results of small-scale experiments.

The third and most serious negative bias that is inherent in the guaranteed income experiments—the **Windfall Effect**—results from the temporary nature and duration of the experiments (three years in most cases). The families who agreed to participate faced a situation in which they were assured a basic annual income for three years, but knew that at the end of the experiment they would once again be on their own in earning a living. If they quit their jobs or reduced their work effort enough to get fired, they were taking a chance of being in a potentially serious situation when the experiment was over and the researchers from Mathematica had gone home. It is usually not easy for a low-income worker to find a job. The prospect of having to start all over at the end of the experiment must have given many of the participants cause to think very carefully about leaving their jobs.

In a fundamental sense the income guarantee of the experiments was viewed as a windfall, an unexpected piece of good fortune that would not last for long. This characteristic of the income guarantee was clearly perceived by the participants. What the experimenters are measuring is, as Jacob Mincer recently characterized it, "the *short-run* response of a particular *part* of the population to a *temporary* flow of cash grants."[8] This is very different from the situation that the same family would face under a full-scale, nationwide guaranteed income program. Under those conditions you would get a *long-run* response of the *entire* low income population to a *permanent* flow of cash grants. The full faith and credit of the federal government would stand behind an implicit, or explicit, promise to pay the income guarantee on the same steady basis as social security and government employee pensions. A low-income worker could count on receiving his monthly check from Washington, whether he worked or not. for as long into the future as he could imagine. Qualifying for an income guarantee would be very much like winning a sweepstakes ticket that guaranteed a certain amount of annual income for life. In one significant way, however, the income guarantee would probably be superior. Given the potential size of the voting bloc that those on a guarantee would represent, the size of the guarantee would inexorably increase by at least as much as the cost-of-living increased, and perhaps more. It would not seem unduly rash to presume that the low-income population would react very differently to that situation than they have reacted to the short-term experiments, and that the likelihood of their quitting work outright, or reducing the number of hours worked, would be greatly increased.

Some scholars involved in planning the experiments were well aware of the limitations inherent in them and carefully warned of the dangers of taking the results at face value. In developing the design of the Seattle and Denver Income Maintenance Experiments, Mordecai Kurz and Robert Spiegelman emphasized, "In terms of work response, it may be anticipated that an increase in transitory nonwork income will have less of an effect on an individual's work effort than a similar increase in permanent income because of the expectation that, when payments cease, the individual will have to return to work. The risks associated with leaving a job in terms of ability to return, loss of seniority, and loss of efficiency will all influence his decision. . . . The major issue is that *significant experimental errors in this area could have drastic policy implications. If families treated a significant portion of the support as transitory income, then the predictions of our studies could all be biased. The social cost of such an error would be very high.*"[37]

Everyone who has studied the guaranteed income experiments seems to be aware of the potentially high negative bias caused by the relatively short life of the experiments, a bias that causes a substantial underestimate of the amount of work reduction that would take place under a real guaranteed income program. As Henry Aaron has observed, "Nearly everyone agrees that if all other analytical problems are correctly resolved, the brief duration of the experiment is likely to lead to estimates of the sensitivity of labor supply to guarantee levels that are too low."[38]

The real difficulty lies in estimating the size of the Windfall Effect bias. Again, there is fairly unanimous agreement that the size of this bias is substantial, that it is of a different order of magnitude than the other experimental biases. According to Professor Boskin, "The net effect of a permanent negative income tax plan on lifetime wealth is of a *totally different order of magnitude* for low-income families than the corresponding effect for a three-year program. If one adopts the view that low-wage males have an investment in training or in a reputation as a stable worker, they are much less likely to reduce labor supply under a temporary negative income tax than a permanent one."[39]

In recent years some efforts have been made to estimate the size of the Windfall Effect bias. In 1973, three economists—Belton Fleisher and Donald Parsons of Ohio State University, and Richard Porter with the Board of Governors of the Federal Reserve System developed an economic model that estimated the difference between the amount of work reduction that would take place under a temporary three-year experiment and the estimated amount that would occur under a permanent, guaranteed income program.[40]

Their research focused on the work behavior of a category of workers with relatively strong attachments to the labor force—men between the ages of forty-five and fifty-nine from families with annual incomes below $10,000. They predicted that the expected work reduction of these male family heads would be approximately *four times greater* under a permanent guaranteed income than the amount that would show up in a three-year guaranteed income experiment, and that the full extent of this work reduction would not show up until the sixth or seventh year. They concluded that "in the first year of the [guaranteed income] program, hours supplied would fall 20 percent from the preplan level; a 50 percent decline would not be felt until the sixth or seventh year."[11] It was estimated that the amount of work reduction that would occur under a guaranteed income experiment of three to five years' duration would be a little over 12 percent, an estimate that was remarkably close to what was actually measured. The estimate of the amount of work reduction that would occur under a permanent guaranteed income program was 36 percent after the second year, 44 percent after the third year, and continued to rise until it reached slightly over 50 percent after the seventh year. In one of the classic understatements of academic literature they summarized by saying, "One must conclude that inferences drawn from experimental short-term programs are likely to underestimate the impact of labor supply."[12]

Charles Metcalf, in a theoretical article in the *American Economic Review* in 1973, reached similar conclusions as to the relative size of the Windfall Effect bias: "If the household faces a real annual interest rate of 10 percent . . . and a time horizon of 30 years . . . the bias in the income effect alone would be 2.8 times the measured experimental effect."[13] This means that the total effect is estimated to be 3.8 times as large as the measured experimental effect, a result that closely corresponds to the estimates of 12 percent and 50 percent developed by Fleisher, Parsons, and Porter—that is, 4.2 times as large.

A fourth negative bias introduced into the experiments was the

Welfare Effect. This particular bias primarily affected female heads of families, although the AFDC–UP program– a variant of the AFDC program in some states where the presence of an unemployed father does not disqualify the family from receiving welfare benefits—was important in the New Jersey experiment. The bias was caused by the presence and availability of normal welfare programs in the same localities where the guaranteed income experiments were taking place. For example, the Gary experiment indicated that the amount of work reduction shown for AFDC mothers was relatively small (5 percent), but it was noted that "switching from AFDC to a more adequate income support program may not lead to large reductions in work effort because many female heads may have *already reduced* their hours of work under AFDC."[11] Before joining the guaranteed income experiments the AFDC mothers were, on average, working only slightly over six hours a week.[12]

The change in work effort measured by the guaranteed income experiments is not an absolute change, but rather the change *relative* to a control group. If a substantial drop in the work effort of those on the experiment were matched by a similar drop in the work effort of the control group, the experiment would record no change as a consequence of the guaranteed income. The presence of welfare programs, some of which males were eligible for, induced some members of the control groups to reduce their work effort, thus partially masking the actual reduction in work effort shown by the experimental group. As Garfinkel points out with regard to the New Jersey experiment: "A . . . problem is that during this period New Jersey and Pennsylvania had relatively generous welfare programs for which low income families with an able-bodied male head were eligible: Because *control group* families were already potentially eligible for a welfare program, the differences between the work efforts of the experimental and control groups for all eight plans are smaller than would be anticipated had the experiment been conducted in a State with a less generous welfare program."[13]

Some attempts have been made to measure the size of the Welfare Effect bias. Referring to studies by Garfinkel and Rees. Aaron has noted that "the difference between the labor supply of control and experimental families is smaller in the presence of welfare than in its absence,"" and that according to Garfinkel's calculations "the reduction in hours worked would have been less than 13 percent even if welfare had not been present, in comparison with an average reduction of 7.9 percent actually observed."" In the New Jersey experiment, then, the amount of work reduction reported was biased downward by over five percentage points because of the Welfare Effect alone.

A fifth bias inherent in the experiments is called the Truncation Effect, and derives from having a cut-off limitation on the amount of income a family can have in order to qualify for enrollment in a guaranteed income experiment. Only families with pre-experimental incomes below some specified limit, such as 150 percent of the poverty level, are included in the experiments. One problem with this procedure is that the people selected are more likely to have temporarily lower incomes than the national group they are supposed to represent, and people with temporarily low incomes relative to their normal level of income are more apt to show increases in income in the future than those with normally low incomes. Consequently, the experimental results will tend to mute the amount of work reduction that would occur in a national plan.

Boskin, commenting on the Truncation Effect, has made the following points: "A series of problems makes extrapolation to the entire population hazardous. The truncation of eligibility for the experiment—by preenrollment income— screens the sample on the basis of the dependent variable upon which the experiment concentrates attention, labor supply. Families with wives working substantial amounts of time thus were systematically excluded from the analysis. Hence, the results are not very useful in examining the impact of a negative income tax on the labor supply of wives or female family heads, the labor force groups likely to be most sensitive to wage and income effects on labor supply."[49]

A sixth bias, which we will call the **Non-random Effect**, deals with the manner in which the families selected for the experiments were assigned to the various plans in the experiment. Within each experiment there were a variety of plans, each having a unique combination of income guarantee and tax rate. Unfortunately, the families were not randomly assigned to these various plans. Instead, families with low incomes at the time of enrollment in the experiment were assigned to plans with low-income guarantees; those with the highest incomes were assigned to the plans with the highest income guarantees. This correlation between the families' income at the time of enrollment and the size of the income guarantee insured a smaller measured change in work effort than would have been the case otherwise. By minimizing the treatment effect–the size of the income guarantee relative to the amount of income the family had when the experiment started the amount of work reduction measured was biased downward.

In summing up the bias effects created by the manner in which the experimental sample was selected and assigned to the various guarantee plans, Aaron has stated, "It seems likely that a combination of factors–truncation of the sample, correlation between income at preenrollment and experimental plan, and the method of estimating normal income and wages–has produced estimates of normal income and wages that may well include the experimental effects they are meant to exclude. This outcome, together with the misspecification of experimental stimulus . . . would seem to *understate* estimates of response to the negative income tax treatments."[50]

A seventh factor not accounted for in the experiments is the effect that the availability of part-time jobs may have on the measured results. Let us call this the **Part-Time Job Effect**. It is likely that most people who decided to reduce their work effort under a guaranteed income program would not quit working altogether, but rather would try to reduce the number of hours they worked. The facility with which this can be accomplished is a function of the availability of part-time jobs. If such jobs are scarce, a person who would like to reduce the number of hours he is working, but who is faced with working either full-time or not at all, will probably choose to work full-time. Under a national guaranteed income program, the increased demand by workers for part-time jobs would probably stimulate the business sector to provide them. As the supply of part-time jobs increased, it would become increasingly easier for someone to reduce his work effort without quitting work entirely. In discussing this issue, Boskin has pointed out that "if indeed there is a labor supply response to a permanent negative income tax, it is likely that it would manifest itself at least partly as an increased demand by workers for part-time jobs. It might then become profitable for firms to increase the supply of such jobs in quantity and variety. This long-run response would *reinforce the initial work disincentive* on the other side of the market."[51]

An eighth bias in the experiments, which we will call the **Early Retirement Effect**, stems from the fact that people may be encouraged to retire early by the existence of a guarantee. As Boskin has also noted, "It may well be that the negative income tax plans do have a *substantial labor supply disincentive* in terms of planned future work effort—for example, earlier retirement."[52] The Early Retirement Effect may cause a substantial reduction in the work effort of older people, say, five to ten years short of retirement. The existence of a permanent guarantee, even though the amount may be significantly lower than what they currently earn, may be enough to persuade some workers who have accumulated substantial capital assets, such as a house owned free and clear, to accelerate their retirement time schedule.

A ninth bias, called the **Substitution Effect**, can operate in some cases to influence the results of the experiment positively, that is, to overstate the amount of work reduction. According to Aaron, "the brief duration of the experiment is likely to lead . . . to estimates of the sensitivity of the labor supply to tax rates that are too high."[11] The Substitution Effect refers to how the number of hours worked changes as a result of a change in a person's effective wage rate. The higher the marginal tax rate, as a result of benefit reductions for earned income, the lower the effective wage rate. The higher the marginal tax rate on earned income, the greater the expected reduction in work effort. However, in a temporary guaranteed income experiment, a person may reduce his work effort *more* under these circumstances than in a situation where the high tax rates on earned income are regarded as more permanent. In other words, he may be more amenable to reducing his work effort now if he expects his wage rate will increase in the future than if he perceives no wage increase later on.

It is generally assumed that husbands and female heads take a longer-term view of the labor market. For them the substitution bias in a short-term experiment is likely to be small. On the other hand, the substitution bias will probably be greater for wives and dependents. They probably view the time of the experiment as a period when leisure is relatively cheap, and may reduce their work effort more than they would under a permanent guaranteed income. In effect, they have a lifetime plan of working that includes more leisure than that of husbands and female heads, and they are apt to take a good chunk of this leisure during the experimental period when their loss of net income is low.

Now let us go back and review the actual results of the six major guaranteed income experiments—keeping in mind that, because of the many negative biases inherent in the experiments, their results seriously understate the predicted amount of work reduction that would occur under a national guaranteed income program. The average measured reduction in work effort for husbands with family responsibilities for all six guaranteed income experiments was 5 percent. The average measured reduction in work effort for wives was much larger, 22 percent. The changes in work effort for female-headed families was measured in only three of the experiments (Gary, Seattle, and Denver) and the average reported for these three was a reduction of about 8 percent.[34] One experiment, the Rural Income Maintenance Experiment, analyzed the effect of income guarantees on the work effort of dependents living with their families. During the experiment their work effort fell by 46 percent.[35]

The order of these results is what we might expect. Husbands. with family-support responsibilities, reduced their work effort the least (5 percent); female heads of families, in the same situation, reduced their work effort by only slightly more (8 percent); wives reduced it substantially more (22 percent); and dependents, with the least responsibility of all, reduced work effort the most (46 percent). While the relative order and degree of the reduction in work effort seem logical and consistent, the absolute magnitudes reported are obviously understated. Even if we discount all the other biases, the windfall nature of the guaranteed income experiments, by itself, introduces such a large bias that the expected work reduction inherent in a real guaranteed income may be understated by as much as four times for some categories of workers.

The ultimate purpose of the studies and experiments is to predict what would happen if a guaranteed income were established in the United States. Making such a prediction is fraught with difficulties and uncertainty. The studies and experiments cover different groups of people, under different circumstances, in different parts of the country, at different times. The specific nature of any guaranteed income can vary depending on the level of the basic income guarantee and the tax rate imposed on income earned by recipients of the basic guarantee. A precise prediction of what would happen if such a radical social scheme were tried is impossible. But while precise predictions are a will-o'-the-wisp, it is entirely feasible to construct an "order of magnitude" prediction that can give us a reasonably accurate idea of the direction and approximate extent of the social consequences that would flow from a guaranteed income.

As to the direction that these changes will take, the studies and experiments are all in agreement. Regardless of whether it is a study of an existing welfare program, or an economic and statistical analysis of survey data, or a controlled guaranteed income experiment; regardless of whether one considers the work response of husbands, or of wives, or of female heads—the results are consistent: a reasonable level of a guaranteed income causes low-income workers to *reduce* the number of hours they work, and the larger the amount of the guarantee relative to their income, the more they tend to stop working.[36] The high tax rates that would be a necessary part of any politically feasible guaranteed income plan would also cause low-income workers to reduce the number of hours they work, and the higher the marginal tax rate the more they would tend to stop working. As the report on the results of the Seattle and Denver experiments concludes, "The empirical results indicate that both disposable income and net wage changes induce husbands, wives, and female heads of families to *reduce* their labor supply. These results are statistically significant, are consistent with economic theory, and are relatively large, indicating that behavior is influenced by changes in incentives."[37]

What many people have suspected for some time is true. Poor people, like those with higher incomes, make rational economic decisions. If their income is little affected by working more, they will not work very much more. If their income is little affected by working less, then they will work less. This is not to say that the poor value idleness, but they do value leisure, just as much as the nonpoor. Whether they will spend that leisure time profitably or not we do not know. But it seems fair to say that bowling, fishing, working around the house, writing poetry, or, in some cases, just loafing for awhile, are clearly more attractive than many low-income jobs. The question is not will low-income people reduce their work effort if guaranteed an income with large implicit tax rates; the question is how much will they reduce it.

It is possible to calculate some reasonable estimates of the size of the work reduction inherent in a guaranteed income program. The studies of how female heads of families with children have reacted to existing welfare programs, for instance, estimate that these women will reduce their work effort by anywhere up to

40 percent. Considering that these welfare programs have a nominal work requirement and also carry a social stigma that a guaranteed income program probably would not have, Hausman's estimate of 40 percent does not seem out of line. A woman alone with children to care for, would be strongly tempted to stop working outside the home if her income were guaranteed, especially if there were no requirement to work and the social stigma of being on welfare were removed.

The economic and statistical studies of survey data have focused on changes in the work effort of husbands with family responsibilities, and in some cases wives. With no nationwide guarantee, with the strong social pressure of the work ethic bearing on married men with families, and with a fairly strong work requirement, especially for men, the studies produced estimates of significant amounts of work reduction. Some of them were quite high. When the raw results of Greenberg and Koster's study were projected on a national basis, they showed that husbands could be expected to reduce their work effort by 29 percent. When the results of Kalachek and Raines's study were similarly projected, the estimate was 37 percent.

The six guaranteed income experiments were primarily devoted to measuring the work response of three major groups—husbands, wives, and female heads of families. The three most significant guaranteed income experiments in terms of measuring the national impact of a guaranteed income were the New Jersey and the Seattle and Denver experiments. The two rural experiments, in Iowa and North Carolina, and the Gary experiment do not provide as valid a base as the other three from which to project national results.

The measured results unadjusted for biases—of the New Jersey and the Seattle and Denver experiments for husbands were similar: the measured reduction in the hours of work by white husbands in New Jersey was 6 percent; it was also 6 percent for both black husbands and white husbands in the Seattle and Denver experiments. Even though the statistical results were similar, those of the Seattle and Denver experiments are probably more reliable. These experiments were larger and more comprehensive. They started later, incorporated more sophisticated analysis techniques, and in general had a number of advantages over the other four experiments. According to Michael Keeley of the Stanford Research Institute, "Perhaps the most important [advantages] are its much larger sample size (5,000 families are enrolled which exceeds the samples of all other income maintenance experiments combined) and more generous NIT [Negative Income Tax] plans which were designed to dominate the welfare system (including AFDC, AFDC-UP, and Food Stamps). In addition, sample income truncation is much less severe and there was no substantial change in the welfare system as occurred in the New Jersey case."[49]

Most important, the Seattle and Denver experimental results were adjusted to make them more valid when viewed in a national context. Because of the limited nature of any guaranteed income experiment, it is impossible to put together an experimental group of families from a small geographic area that will accurately reflect the characteristics of the entire population. To resolve this dilemma the analysts of the Seattle and Denver experiments constructed an economic model that allowed them to infer from their small experimental sample what would have happened if the experiment had been conducted on a national basis. As they carefully point out in their report, "*Mean responses* [experimental results] . . . *cannot be directly translated into national effects.* . . . To provide meaningful predictions of the effects of a particular national program, a labor supply response model . . . must be used."[50]

Using an income guarantee of $[illegible],750 in 1974 and a marginal tax rate of 70 percent, their economic model predicted the following national effects of a guaranteed income program: husbands would reduce their work effort 11.2 percent, wives by 32.2 percent, and female heads of families by 9.4 percent.[51]

But these estimates, even though based on carefully controlled experiments and sophisticated economic analyses seriously understate the extent of the work reduction that would take place in the real world with a real guaranteed income. As we have seen the very nature of the experiments makes it necessary to conduct them in such a way that many powerful factors operate to bias the measured amount of work reduction downward. All of the biases except one—the Substitution Effect—tend to cause the experimentally measured amount of work reduction to be understated.

There is the Hawthorne Effect, the Small-Scale Effect, the Windfall Effect, the Welfare Effect, the Truncation Effect, the Non-random Effect, the Part-Time Job Effect, and the Early Retirement Effect. All of these factors cause the experimental results to be lower than they would be in a national program. When experimental results that are biased downward are fed into a national simulation computer model, the results of that national prediction are also biased downward.

Now some may assert that in the absence of hard experimental data you cannot infer any quantitative estimates of these biases, and that you should use only results that have been "measured." This position is unreasonable for it says, in effect, that the quantitative magnitude of the biases is zero. And we know that is not true. It would seem to be preferable to postulate some quantitative ranges of the size of the biases that we believe are likely to be of the right order of magnitude, based upon the evidence we now have from studies and experiments.

One way to approach this problem is to select a range of estimates for each bias that seems fairly reasonable, and then calculate the total effect of all the biases on the estimated amount of work reduction. Once such a model is established, the sensitivity of the overall estimate to changes in the various bias parameters can be tested. In Table 1 an illustrative range of three estimates has been postulated for the effect that each bias might have on each category of worker.

The first estimate is intended to be a "best case" estimate, one that assumes that the negative biases will be low, and the positive bias high. The second estimate is intended to be the "average or likely case," with the values chosen well within the range of feasibility. The third estimate is intended to be a "worst case" estimate, one that assumes that the negative biases will be high, and the positive bias low.

F[illegible]mple, the low estimate postulated for the Hawthorne Effect is [illegible] percentage point, and the high estimate of the range is five percentage points. The same is true for the Small-Scale Effect. The [illegible]timates for the Windfall Effect are larger. Theoretical studies, like the one by Fleisher, Parsons, and Porter, indicate that this factor could add as much as 35 percentage points to the results of guaranteed income experiments. In this category we have assumed a low estimate of five percentage points for husbands, 20 points for a medium estimate, and an upper bound of 30 points.

The same range is postulated for female heads, who have the responsibility of being the head of a household and are apt to react as husbands do in this regard. It is assumed that the effect on wives and dependents will be substantially less. The Welfare Effect applies primarily to female heads, although it can have some effect on husbands and wives. It is assumed to have no effect on dependents. Similar types of estimates have been made for the Truncation Effect, the Non-random Effect, the Part-Time Job Effect, and the Early Retirement Effect. The Substitution Effect biases the results in the other direction, and thus is subtracted. It is assumed that the effect of this bias will be higher for wives and dependents than for husbands and female heads.

Summing up the assumed estimates of the biases in Table 1 results in a fairly wide estimated range of the amount of work reduction that could occur if a guaranteed income were established in the United States. The amount of work reduction ranges from a low of 22 percent to a high of 69 percent for husbands, from 35 percent to 75 percent for wives, from 46 percent to 75 percent for dependents, and from 19 percent to 71 percent for female heads.

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TABLE 1

Correction for Biases in the Measurement of Work Reduction in the Guaranteed Income Experiments
(As Percent of Hours Worked by Controls)

	Category of Worker			
	Husbands	Wives	Dependents	Female Heads
Average measured reduction in work effort	6%[a]	15%[a]	46%[b]	14%[a]
Reduction in work effort projected to national base	12	32	46[c]	9
BIASES	Illustrative Range of Possible Corrections (In Percent: Best—Average—Worst)			
1) Hawthorne Effect	1—3—5%	1—3—5%	1—3—5%	1—3—5%
2) Small-Scale Effect	1—3—5	1—3—5	1—3—5	1—3—5
3) Windfall Effect	5-2[illegible]	2-10-20	1—5-10	5-20-30
4) Welfare Effect	1—2—3	1—2—3	——	3—5-10
5) Truncation Effect	1—2—3	1—2—3	0—1—2	0—1—2
6) Non-random Effect	1—3—5	1—3—5	1—3—5	1—3—5
7) Part-Time Job Effect	1—2—3	1—2—3	1—2—3	0—1—2
8) Early Retirement Effect	1—2—3	——	——	1—2—3
9) Substitution Effect	(2—1—0)	(5—3—1)	(5—3—1)	(2—1—0)
Range of measured work reduction, adjusted for biases	22-43-69%	35-54-75%	46-60-75%	19-46-71%

[a] Measured results from Seattle and Denver Income Maintenance Experiments. Based on income guarantee of $3,750 and a marginal tax rate of 70 percent.

[b] Measured result from the Rural Income Maintenance Experiment in Iowa and North Carolina. Dependents were not included in any other experimental results.

[c] Assumes national projection would be the same as the measured experimental results.

Now it can be argued that these estimates are not precise (and they are not), and that the effects may not be neatly additive as there may be some interaction among them. But what seems to be inescapably clear is that even fairly modest adjustments for each of the bias effects substantially increase the amount of work reduction that is apt to occur. Even if we were to take the low estimate for each bias for each category of worker, we would still end up with estimated percentages of work reduction of 22 percent for husbands, 35 percent for wives, 46 percent for dependents, and 19 percent for female family heads.

It could be that 1 to 5 percent is not the correct estimated range for the Hawthorne Effect, or that 5 to 30 percent is not right for the Windfall Effect, or that 1 to 3 percent is not appropriate for the Non-random Effect. But the biases are there, and they do affect the results. We need a great deal more research in this area before we will be able to estimate these ranges with the kind of certainty we would like. But in the meantime, policy decisions will have to be made on the basis of the information available, and prudent estimates of these biases will lead to far more reliable estimates of the amount of work reduction that would take place under a nationwide guaranteed income than will an evasion of the reality of the biases.

To estimate the *total amount of work reduction* that would be brought about by a guaranteed income it is necessary to weight the results in Table 1 by the relative percentage that each of the four categories of workers comprises of the total low-income work force. According to Census Bureau statistics (regretfully, the only ones available), the breakdown of the low-income labor force—defined as families with incomes of less than $10,000 a year—is as follows: husbands (46 percent), wives (23 percent), dependents (18 percent), and female heads (13 percent).

The results of weighting the range of estimates of work reduction for each of the worker categories by their respective percentage in the low-income labor force are shown in Table 2. If we use the "best case" estimate for each experimental bias, the

TABLE 2

ESTIMATED RANGE OF THE TOTAL EXPECTED WORK REDUCTION FOR THE LOW-INCOME POPULATION UNDER A GUARANTEED INCOME

Category of Worker	Percent of Low-Income Labor Force*	Expected Amount of Work Reduction					
		Best Estimate	Weighted Best Estimate	Average Estimate	Weighted Average Estimate	Worst Estimate	Weighted Worst Estimate
Husbands	46%	22%	0.1012	48%	0.2208	69%	0.3174
Wives	23%	35%	0.0805	54%	0.1242	75%	0.1725
Dependents	18%	46%	0.0828	60%	0.1080	75%	0.1350
Female heads of families	13%	19%	0.0247	46%	0.0598	71%	0.0923
Total Work Force	100%	29%	0.2892	51%	0.5128	72%	0.7172

*Family income below $3,000 a year

expected amount of work reduction for the entire low-income labor force is about 29 percent. If we use the "average case" estimate, the total amount of work reduction rises to just over 51 percent. If all the "worst case" estimates were to occur simultaneously, the amount of work reduction in this example would be almost 72 percent.

I am sure that there will be many who will disagree with the individual estimates of the experimental biases in Table 1. They *are* rough estimates. And, until more research is done and more refined data become available, the estimates will continue to be rough. But it is necessary to make *some* kind of estimate. I would urge anyone who is concerned about the accuracy of the estimates in the example to go through the exercise of reconstructing Table 1—bias by bias—using estimates they feel are more reasonable. And then calculate the expected total amount of work reduction for the low-income population that results from those estimates.

If it happened that all the bias estimates postulated in Table 1 were accurate, we could expect that the institution of a guaranteed income in the United States would cause—in round numbers—a minimum of a 30 percent reduction in the work effort of low-income workers. We could also expect that there would be a reasonably good chance the amount of work reduction could be as high as 50 percent. And there would be the remote possibility that it could exceed 70 percent.

The actual amount of work reduction that would occur as a consequence of a guaranteed income will never be known for sure unless we implement one and live with it for a decade or so. But based on the best evidence we now have—from studies of existing welfare programs, from economic and statistical analyses of survey data, and from six major guaranteed income experiments—we can be reasonably sure that the order of magnitude of the amount of work reduction that will occur will be substantial, substantial enough to make us think long and hard about the implications that a guaranteed income could have for our society.

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VI

THE IMPOSSIBILITY OF RADICAL WELFARE REFORM

"Have some wine," the March Hare said in an encouraging tone.

Alice looked all round the table, but there was nothing on it but tea. "I don't see any wine," she remarked.

"There isn't any," said the March Hare.

Lewis Carroll, 1865

Sixth Thesis: *Radical welfare reform or any variety of a guaranteed income is politically impossible. No radical welfare reform plan can be devised that will simultaneously yield minimum levels of welfare benefits, financial incentives to work, and an overall cost to the taxpayers that are politically acceptable.*

During the last fifteen years a number of economists and social science theorists have put forth plans for radically altering the welfare system of the United States from its current purpose of helping needy people to guaranteeing incomes for everyone. There has been a long string of specific proposals, including Milton Friedman's negative income tax (1962), Robert Theobald's guaranteed income (1965), James Tobin's guaranteed income plan (1965), R. J. Lampman's subsidy plan (1967), Edward Schwartz's guaranteed income (1967), the negative income tax plan of President Johnson's Income Maintenance Commission (1969).

President Nixon's Family Assistance Plan (1969), George McGovern's $1,000-a-year plan (1972), Great Britain's credit income tax (1972), and HEW's Income Supplementation Plan (1974). The plans provided for minimum income guarantees ranging from $1,500 to $6,000 a year for a typical family of four. The effective marginal tax rates ranged from 50 percent to well over 100 percent. The costs of the plans ranged from several billions to over $50 billion a year. All would have added tens of millions of people to the welfare rolls.

A common thread running through each of these plans is the planner's dream of simplification. The welfare system we now have is difficult to understand and difficult to administer. It has multiple programs, varying payments, and regulations that vary from state to state. It is very complex. The radical reform plans would replace it with a single system that purportedly would be easy to understand and easy to administer, with the same payments and regulations applying to the entire country.

The current welfare system can be likened to a rugged terrain of hills, mountains, and valleys, a wonderfully complex array of programs, payment levels, and eligibility rules that change as one moves from city to city, from state to state. It can be argued that this is as it must be, a complex welfare system dealing with the very complex problem of the poor in America. This view is shared by a small, but influential group of welfare experts. One of them, Senior Fellow Richard Nathan of the Brookings Institution and formerly Deputy Undersecretary for Welfare of HEW, asserts flatly, "The existence of a 'welfare mess' tends to be overstated. Any system that provides aid to people in the lowest-income groups, who are highly mobile and often have limited job and literacy skills, is going to be difficult to administer."

All of the radical welfare reform plans would like to level the hilly and mountainous terrain of the current welfare system, replacing it with broad, flat plains. One critical element in all these plans is the height of the plain that would replace the hills and mountains. If it is set lower than any of the hilltops and mountain peaks, welfare payments will be reduced for hundreds of thousands, perhaps millions, of Americans. If the new welfare plan is raised to the highest peaks and all the valleys are filled in, welfare payments will be sharply increased for millions of Americans and the costs will be extraordinarily high. There is no way out of this dilemma.

But the demography of low-income America has not hindered the quest for a guaranteed income plan that will work. Like medieval alchemists searching for the universal solvent, some modern social scientists continue to search for a feasible guaranteed income plan–a plan that will simultaneously provide a decent level of help to the poor, guarantee a basic income for all, have a reasonable cost, and be acceptable to the voting public. All would agree that such a plan is difficult to find; perhaps a more interesting question is whether or not such a plan is possible.

All radical welfare reform schemes have three basic parts that are politically sensitive to a high degree. The first is the basic benefit level provided, for example, to a family of four on welfare. The second is the degree to which the program affects the incentive of a person on welfare to find work or to earn more. The third is the additional cost to the taxpayers.

There are many other important aspects of welfare programs and the plans to reform them, but each of the above three is critical to the chance of any particular reform plan passing the Congress and being signed into law by the President. To become a political reality the plan must provide a decent level of support for those on welfare, it must contain strong incentives to work, and it must have a reasonable cost. *And it must do all three at the same time.* If any one of these parts is missing or deficient, the reform plan is nakedly vulnerable to anyone who wishes to attack and condemn it.

The typical welfare family of four in the United States now qualifies for about $6,000 in services and money every year. In higher-paying states, like New York, a number of welfare families receive annual benefits ranging from $7,000 to $12,000, and more.[2]

There is no way that the Congress, at least in the near future, is going to pass any kind of welfare reform that actually reduces payments for millions of welfare recipients. Even the most hardy welfare skeptics in the Congress will shy away from this possibility. The media response would be virtually unanimous—the "reform" would be denounced as cruel and mean-spirited. Countless documented case examples would soon drive the point home to everyone watching the evening television news. Even if the Congress were to pass a cut in welfare benefits for millions of Americans, no President could resist vetoing the bill.

Any radical welfare reform plan has to ensure that virtually no one now validly covered under any of our welfare programs would suffer any loss or reduction in benefits. This is especially true of programs for the blind, the aged, the disabled, and those on AFDC. The minimum level of support provided for a family of four by any reform plan must approach the level of payments in states like New York and California, where a large segment of the welfare population lives, a level that averages approximately $6,000 a year.

A second major consideration concerning the political feasibility of any radical welfare reform plan is the "welfare tax rate." All current welfare programs that are "income-tested" provide for a reduction in the amount of the welfare payment when the recipient of those payments begin either to earn money or to earn more money. And all of the proposed radical welfare plans incorporate some schedule of welfare payment reductions as a function of increasing income—the more you earn, the less you get from the taxpayers.

This welfare tax rate has the same effect on the financial incentive to work as normal taxes. The financial incentive for a welfare recipient to get a job, or to earn more money, is directly related to how much the person earns and how much welfare benefits are reduced because of those earnings. If a welfare recipient earns an additional $1,000 a year and his welfare check is reduced by, say, $200, the result is precisely the same as if he had to pay $200 in federal income taxes on $1,000 of income. In both cases the effective tax rate would be 20 percent. If welfare benefits are reduced $500 for every $1,000 increase in earnings, the tax rate would be 50 percent; if they are reduced $700 for every $1,000 increase in earnings, the tax rate would be 70 percent, and so on.

A person's desire for additional income is unquestionably diminished when he realizes that he can keep only half or one-fourth of it for himself. To make the financial incentive to work the main instrument for inducing potentially self-sufficient people to leave the welfare rolls and rise out of poverty, and then to impose on those people incentive-destroying rates of taxation far above that of the average worker, is unconscionable and clearly contrary to the expressed goals of welfare reform.

Any radical plan for the reform of welfare that does not ensure a strong financial incentive to work is vulnerable to the same charges that were leveled at President Nixon's Family Assistance Plan by the Senate Finance Committee with such devastating effect in 1969.

Exactly what constitutes a "strong" financial incentive to work is open to debate—a marginal tax rate that may discourage one person from working could easily have little or no effect on someone else. But in general terms we can say that low marginal tax rates, from zero to, say, 15 or 20 percent, seem to have a relatively minimal effect on work effort; that as tax rates move up into the region of 40, 50, or even 60 percent, an increasing number of people are adversely affected; and that as tax rates approach the confiscatory levels of 80, 90, or even 100 percent and more, the work disincentive becomes very powerful. The primary earner in a typical family of four does not begin to pay federal income taxes until his income exceeds $6,900 and the total effective marginal tax rate he then faces is just over 29 percent.*

* The introduction of the federal earned income credit has distorted the normal, even, upward flow of marginal tax rates. See Table B3 in Appendix B.

Practically speaking, a marginal tax rate that is low enough to provide welfare recipients with a strong financial incentive to work should probably be no more than it is for people who are first entering the labor force. This means a total marginal tax rate of 20 percent or lower. There is no way to know with certainty that this is the highest the marginal tax rate could go without seriously impairing the financial incentive to work. But we have had many years of experience with marginal tax rates of this order of magnitude for low-income workers with no apparent serious consequences. Looked at from a different perspective, one could ask why a person on welfare should be taxed more to enter the job market than a person who is not on welfare. A total marginal tax rate of approximately 20 percent is considered appropriate when one first begins to pay federal taxes, and it is generally accepted that raising those tax rates introduces serious work disincentives for low-income workers. It therefore is difficult to understand the rationale behind the application of tax rates far in excess of 20 percent to welfare recipients, especially in view of the increasing reliance on financial incentives to induce people to leave the welfare rolls and become self-supporting.

Yet the nature of the radical welfare reform plans so far proposed is such that even the most timid plan involves marginal welfare tax rates of not 20 percent, but 50 percent and higher. The revised Family Assistance Plan, usually referred to by its bill number, H.R.1, which actually was passed by the House of Representatives in 1971, had marginal tax rates of well over 100 percent for the income range of $2,000 to $5,000.[1] Another plan, introduced by Senator Russell Long, had marginal tax rates that "averaged just under 100 percent on increments to earnings between $3,000 and $6,900 per year."[2] Neither plan managed to get past the Senate.

When one considers that the marginal welfare tax rates of existing welfare programs range well over 70 percent, it is understandable how people can propose welfare reform programs with marginal tax rates of 50 to 60 percent and consider them to be "low." While low in a relative sense, they are very high on an absolute scale, which is what affects the financial incentive to work. Any radical welfare reform plan that claims to have a strong financial incentive to work must obviously have tax rates that are reasonably close to 20 percent, and preferably much less.

Marginal welfare tax rates of 40 or 50 percent are a deterrent to working. Tax rates that approach 70 percent, and in some cases 100 percent or mor.. are confiscatory and virtually eliminate the financial incentive to work. As far as any new redical welfare reform plan goes, the marginal tax rate it establishes for welfare recipients should, if one is to continue to rely on financial incentives to induce people to get off welfare, at the very least not exceed the high rate now embedded in our current welfare programs. At least then the proponents of the plan could claim that they have not reduced the virtually nonexistent incentive to work even further. Of course, if we are serious about having a strong financial incentive to work, the marginal tax rate should probably be no higher than 30 percent, preferably 20 percent, or even lower.

When Milton Friedman was asked to testify before the House Ways and Means Committee on President Nixon's welfare reform plan, he emphasized the necessity of having strong financial work incentives, stating flatly. "In my opinion, the most important need in welfare reform is to provide a strong incentive for persons receiving governmental assistance to become self-supporting. . . . For the class of persons involved, 50 percent is a very high rate. Yet, given the present low exemptions under the positive income tax . . . it is hard to construct a feasible scheme with a much lower rate. In my own proposals for a negative income tax, I have reluctantly recommended a 50 percent rate. viewing it as the highest that would give families a strong enough incentive to work themselves off relief. . . . This Committee can enormously improve the present proposals by insisting that no combined marginal tax rate should exceed 50 percent."

Plans containing truly effective financial work incentives would entail tax rates not exceeding 15 or 20 percent. Tax rates

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as high as 50 percent might be politically tolerable in today's context, but would not be effective in motivating people on welfare to work. Any radical welfare reform plan having tax rates that begin to stray up into the category of 70 and 80 percent and above has virtually no chance of gaining political acceptance. All some enterprising senator or congressman would have to do to demolish the plan would be to construct a few charts showing how welfare recipients' take-home benefits changed as they began to work and earn more money. It would quickly be proven that the financial incentive to work was almost nonexistent.

A third major consideration affecting the political feasibility of any radical welfare reform plan is the cost. The amount of money that any welfare reform plan can add to the federal budget and still be politically acceptable is a function of many factors and changes constantly. Among other things it is a function of whether people believe the amount now spent on welfare is sufficient or not, of how high welfare reform is on the public's list of spending priorities, and of the fiscal condition of the federal budget.

The current circumstances and the prospects for future change are not encouraging. A 1976 nationwide Harris poll cited earlier indicated that 58 percent of the public felt that spending on welfare could be *cut* by one-third without serious loss. The danger of double-digit inflation and high unemployment threatened by the huge budget deficits being incurred by the federal government is causing every new spending proposal to come under the strictest scrutiny. A major radical welfare reform plan could be financed only by increasing taxes, cutting expenditures on other federal programs, or borrowing money—or some combination of these.

The politically acceptable cost of welfare reform is difficult to estimate with precision. But given the public's attitude toward welfare spending in particular, and the widespread opposition to higher taxes in general, to spending cuts in other federal programs, and to increased federal budget deficits, there seems to be little hope of mobilizing the public support necessary for a substantial increase in welfare spending. In fact, any increase in federal spending for welfare reform may be out of the question in the near future.

For any radical welfare reform program to succeed politically—to be passed by the Congress and signed into law by he President—then, three necessary major conditions must be met: (1) total welfare benefits for a typical family of four cannot fall much below $6,000 a year; (2) the total effective marginal tax rate on welfare recipients' earnings should not exceed 50 percent. and cannot exceed 70 percent; and (3) there should be no substantial additional cost to the taxpayers.

The three basic elements involved in any radical welfare reform plan—the level of benefits, the marginal rate of taxation, and the overall cost to the taxpayers—are *inextricably linked to one another.* If the level of benefits is increased, and the tax rate is held constant, the overall cost must increase; if the overall cost is held constant, the tax rate must increase. If the tax rate is decreased, and the overall cost is held constant, the level of benefits must decrease; if the level of benefits is held constant, the overall cost must increase. If the overall cost is decreased, and the level of benefits is held constant, the tax rate must increase; if the tax rate is held constant, the level of benefits must decrease.

It is impossible to change any one of these three main variables without affecting the others. Setting the values for any two of them automatically determines the other one. There is a direct mathematical relationship among all three variables—minimum benefit levels, tax rate, and cost—that is fixed for any particular radical welfare reform plan, a relationship that cannot be broken.

When any two of the three basic elements of radical welfare reform are set at politically acceptable levels, the remaining element becomes unacceptable. For example, if both the minimum welfare benefit level and the tax rate are set so they will be acceptable in today's political context, the cost of radical welfare reform balloons into tens of billions of dollars, adding millions of Americans to the welfare rolls. On the other hand, if the welfare benefit level is set at a politically tolerable level, and the overall cost is held down, the result is a tax rate that approaches confiscatory levels and destroys the financial incentive to work. And, finally, if the cost is acceptable and the tax rate is low enough to create a strong financial incentive to work, the level of welfare benefits in the plan must be reduced to such a low level that the plan would have no chance whatsoever of being enacted. *There is no way to achieve all the politically necessary conditions for radical welfare reform at the same time.*

As long as Americans believe that poor people who cannot help themselves deserve a decent level of welfare support, that people's incentive to work should not be taken away from them, and that to increase their taxes to give money to someone who may not feel like working is unthinkable, the kind of radical welfare reform being discussed in some of today's best and brightest intellectual circles is going to remain an ideological fantasy, bereft of friends in the hard world of politics.

During the spring of 1969, as a member of the White House working group charged with putting together President Nixon's welfare reform package, I attended many staff meetings on welfare. As Nixon's welfare reform plan neared its final shape it became uncomfortably clear that there were serious problems. The meetings seemed to move in a circular pattern. At one meeting it would be pointed out that the financial work incentives in the plan were far too low, that we could not reasonably subject poor people to effective marginal tax rates of well over 70 percent. All would agree, heads would nod, and the plan would go back to the drawing boards at HEW. At the next meeting it would be noted with satisfaction that the marginal tax rate, while still very high at 50 percent, was a notable improvement and we could live with it. Then someone would point out that the revised plan now cost several billion dollars more than before, and was therefore unacceptable for budgetary reasons. All would agree, heads would nod, and the plan would go back to HEW.

The next time we got together, everything would seem fine—the marginal tax rate had stayed at 50 percent, the overall cost was within budget limitations. But then someone would complain that the annual payment to a family of four was far below what they were then receiving from current welfare programs. It was agreed that this was politically intolerable, heads would nod, and the plan would go back once again to HEW. At the next meeting the newly revised plan was examined more warily. The overall cost was within budget limitations and the minimum payment to a family of four seemed to be sufficient to live decently on. But then someone noticed that the effective marginal tax rate on earned income had gone back up to over 70 percent. All agreed this was unacceptable, heads nodded, and the welfare experts from HEW vowed to redraft it once again.

This game continued until the necessity of sending a bill to the Congress ended it. No one seemed to clearly comprehend that there was, in fact, no way out of the dilemma presented by the conflicting goals of reasonably high welfare payments, low tax rates, and low cost. To some it seemed that the plan was "such a good thing" that the possibility of it not being possible was never seriously considered. So Nixon sent the Family Assistance Plan, the version with the high marginal rates, to the Congress. The House of Representatives never did have the time to understand the complexities of the proposal and passed the bill (243 to 155). Subsequently, however, an understanding of the important and radical implications of Nixon's welfare reform plan began to spread, and by the time it reached the Senate Finance Committee enough members of that committee understood them well enough to ask the simple questions that destroyed it.

One of the most embarrassing exchanges during the Senate Finance Committee hearings, which took place in early 1970, occurred among Senator Russell Long of Louisiana, the committee chairman, Senator John Williams, the ranking Republican from Delaware, and Robert Patricelli, then Deputy Undersecretary for Policy of HEW who had had a major part in drafting the bill. Patricelli had also been a member of the White House working group and had pushed hard to send the bill to the Congress. As the hearings progressed, Senators Long and Williams quickly struck at the weakest link in the Family Assistance Plan:

SENATOR WILLIAMS: . . . If they [welfare recipients] increase their earnings from $720 to $5,560 under this bill, they have a spendable income of $6,109, or $19 less than they would if they sit in a rocking chair earning only $720. Is that not correct?

MR. PATRICELLI: That is correct, Senator. . . .

SENATOR WILLIAMS: They are penalized $19 because they go out and earn $5,500. Is that correct?

MR. PATRICELLI: That is correct.

THE CHAIRMAN: How can anybody justify a situation where a fellow goes to work to help himself and his family and he makes $3,920; he gets up to where his total income is $6,986, and then if he makes $1,600 more, his total income drops to $6,109. Now, how can you justify the man having $800 less after he makes $1,600 more? How do you justify that? What possible logic is there to it?

MR. PATRICELLI: There is none, Senator. . . .[6]

As Daniel Patrick Moynihan later admitted, "The hearings were a calamity."[7] The saddest aspect of this humiliating political defeat, from the viewpoint of the Republican Administration, was that it was totally unnecessary. Patricelli and other welfare experts from HEW were aware that the bill sent to the Congress contained defects that, if widely known, could cause its defeat. And they knew it when they sold the welfare reform plan to Nixon.

The lesson that comes from fifteen years of radical welfare reform plans—from massive computer simulations of every conceivable combination of welfare payment levels, tax rates, and cost, from hundreds of hours of congressional testimony, and from countless academic studies—is a gradually spreading awareness that radical welfare reform cannot be accomplished without incurring intolerable political costs. The Achilles' heel of all radical reform plans is that there is *no way* to combine the three elements of welfare payment levels, tax rates, and program cost that does not leave at least one of them too high or too low to be politically feasible.

During the last decade or so some of the most brilliant thinkers in economics, political science, and sociology have struggled to develop a welfare reform plan that would solve this dilemma of conflicting goals. None has succeeded. And now some of the experts in the field of welfare reform are reluctantly concluding that "it can't be done." For the most part the analyses and conclusions of these experts have been set forth in relatively obscure scholarly journals and government publications.

Perhaps the first person to point out clearly the irreconcilability of the three main features of a guaranteed income was Professor James Tobin of Yale University. In 1966 he wrote: "In the design of an integrated allowance and tax schedule a compromise must be struck among three objectives: (a) providing a high basic allowance for families with little or no earnings, (b) building in a strong incentive to earn more, and (c) limiting the budgetary cost of the scheme. . . . It is essential to keep in mind that some compromise is necessary, that *there are inexorable conflicts among the three listed objectives.*"

One of the nation's best-known experts on welfare reform today is Senior Fellow Henry Aaron of the Brookings Institution, who was chosen by President Carter to be Assistant Secretary of HEW in charge of developing his welfare reform proposals. Summing up his analysis of several radical welfare reform plans in 1973, Aaron wrote, "The reason Congress had found it difficult to find a plan that provides universal benefits at a level regarded as reasonable, that preserves work incentives, and that is not vastly more expensive than President Nixon's proposals is that *no* *such plan exists or can be devised: These objectives are mutually inconsistent.*"[9]

Leonard J. Hausman, associate professor of social research at the Graduate School for Advanced Studies in Social Welfare at Brandeis University, has similarly concluded, "When designing a cash transfer program, policymakers seek high guarantees, low tax rates, and low break-even income levels. But attaining any two of these objectives conflicts with the third. . . . *No system of transfers can escape the dilemmas of income maintenance programs.*"[10]

Samuel A. Rea, Jr., assistant professor of economics at the University of Toronto, conducted a comprehensive study of radical welfare reform plans in 1974 for the Joint Economic Committee as part of its overall examination of public welfare policies. In his conclusion he states: "Programs which minimize the reductions in work effort tend to be inefficient in their impact on poverty. Programs with ample benefits for those with low incomes tend to be extremely costly. A decrease in the marginal tax rate for a negative income tax increases the budget cost and gives more benefits to those above the poverty line. Conversely, reductions in benefits to those with higher income through an increased tax rate reduce the incentives to work and increase the real cost. . . . The central point of this paper is that *there is no way of simultaneously meeting all of these objectives for income maintenance programs.*"[11]

Irene Lurie, assistant professor of economics at Union College and staff member of the Institute for Research on Poverty at the University of Wisconsin, organized a major conference on welfare reform policy in 1972. In her overview paper she concluded, "The dissatisfaction with each of the programs points to one of the major lessons of the conference: *All desired goals cannot be achieved simultaneously* and trade-offs among them must be made in designing a system of programs."

Discussing President Carter's intention to reform welfare, Richard Nathan, senior fellow of the Brookings Institution, advised in early 1977, "Again there is talk of cleaning up the 'welfare mess' by instituting a brand new system which would end red tape and save the taxpayers' money. *My suggestion is that we abandon the search for a utopian solution to welfare problems* and instead build on the programs we have."

In another recent major study of public welfare policy, two members of the staff of the Subcommittee on Fiscal Policy of the Joint Economic Committee, Vee Burke and Alair A. Townsend, summed up their research findings by stating, "Income maintenance programs can be judged for their progress toward several goals, especially poverty reduction, maintenance of work incentives, least budget cost, and enhanced equity. Unfortunately, these objectives are inherently at odds with each other. . . . *It is impossible to fulfill simultaneously all the desired objectives.*"

In another major examination of our welfare system and the radical proposals to reform it, Edgar K. Browning, associate professor of economics at the University of Virginia, ruefully admitted that the negative income tax approach he favors has serious problems: "It appears advisable, then, to have a low breakeven income and a low tax rate, but a high income guarantee. *Unfortunately, it is impossible to achieve simultaneously all these aims*, because of the necessary relationship between the policy variables."

Writing in the *Public Interest* in early 1977, Fred Doolittle, doctoral student in economics, Frank Levy, associate professor of public policy, and Michael Wiseman, assistant professor of economics, all at the University of California at Berkeley, assessed President Carter's promise of welfare reform and concluded, "It is the beginning of welfare wisdom to recognize that *such idealized systems cannot be achieved*, no matter how ambitious the legislation.'. . . Any suggestion of 'total welfare reform' will expose every aspect of the existing system to new debate, guaranteeing political stalemate.'"

The verdict is in. Whether it is the negative income tax, the Family Assistance Plan, McGovern's $1,000 Demogrant, H.R 1 (the revised Family Assistance Plan), or HEW's Income Supplementation Plan—they all have the same problem. At least one, and sometimes more, of the three necessary conditions for political acceptance are absent.

The political impossibility of radical welfare reform does not mean that such radical change is technically impossible. A program of radical welfare reform can be developed, as many already have been. The program can be passed into law, and it can be implemented. But if it is, there will be consequences—either lower welfare benefits or higher rates of taxation for the poor, or tens of billions of dollars of added federal, state, and local expenditures—that will politically be very painful for the elected officials who become identified with the support of that radical reform.

In addition to the three major determinants of political feasibility just discussed there are other factors that reduce the chances for political success of any radical welfare plan that attempts to guarantee incomes. First, any such plan would add millions of Americans to the welfare rolls. The lower the welfare tax rate, or the rate at which welfare benefits are reduced as earned income increases, the higher the annual income a person can have and still remain on welfare. Because of the existing distribution of income in the United States, even slight increases in the level of income a person can have and still remain on welfare will make millions of additional people eligible. As Leonard Hausman has pointed out, "It is impossible, under any scheme, to maintain low cumulative tax rates while extending substantial cash and in-kind transfers to the working poor without also extending the coverage of these programs to middle-income brackets."[11]

Second, any form of a guaranteed income will cause a substantial amount of work reduction among low-income workers in the United States. The reduction in work effort could easily run as high as 50 percent, and there is some chance it would be even higher. While scarcely appreciated now, this phenomenon could well turn out to be the most politically damaging aspect of a guaranteed income.

And finally, there are certain to be unanticipated social effects. For example, one striking result of the guaranteed income experiments was a sharp increase in the number of *broken marriages* for the low-income families who took part in the experiments. This unexpected phenomenon is ironic, as one important virtue often claimed for a guaranteed income is the strengthening of the family. Unfortunately, the measured results of the Seattle-Denver guaranteed income experiment revealed that the incidence of marriage breakup for whites, who had been given an income guarantee of $3,800 a year, increased 430 percent during the first six months of the experiment. Over the entire two-year period studied, family breakup—relative to the control group—increased 244 percent for whites, 169 percent for blacks, and 194 percent for Chicanas.[16]

Apparently many low-income women were dissatisfied with their marriages, but had remained with their families because they were unable to support themselves. When a guaranteed income gave them a sufficient degree of financial independence, even though only for a few years, they left.[17]

One could argue that these marriage breakups were a good thing—that the couples were unhappy together, and that the guaranteed income made it possible for them to separate or get divorced. On the other hand, there may be quite a few taxpayers who won't understand why their tax money should be used to subsidize the breakup of marriages, especially those that involve children.

If the insoluble conflict among the goals of adequate welfare benefit payments, low marginal tax rates, and low budget cost is ignored—as it can be—there still remains a delicate task for the politician who supports such radical welfare reform. In the next election, he is the one who will have to answer his opponent's charge that he voted for welfare "reform" that lowered welfare benefits for hundreds of thousands, or even millions, of poor people, or that subjected welfare recipients to higher tax rates approaching confiscatory levels, or that added billions of dollars to the welfare budget. He is the one who will have to explain why so many more Americans went on welfare, why so many of them stopped working, and, perhaps, why so many of their marriages broke up.

Politically, it's all very risky.

CITATIONS—CHAPTER VI

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18 Nancy Brandon Tuma, Michael T. Hannan, and Lyle P. Groeneveld, *Variation over Time in the Impact of the Seattle and Denver Income Maintenance Experiments on the Making and Breaking of Marriages*, Research Memorandum 43 (Menlo Park, California: Center for the Study of Welfare Policy, Stanford Research Institute, 1977), page 13, Table 1.

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A critique of the guaranteed annual income

JAMES C. VADAKIN

Over recent years, the idea of some form of guaranteed annual income program covering all Americans has captured the interest of many scholars. Numerous proposals, varying both in philosophy and content, have been advanced. Their authors have been, in most cases, persons of recognized stature although of widely differing political persuasion — two factors which help to account for the wide degree of attention that has been generated.

The main income guarantee plans which have been proposed are those of Milton Friedman, Robert Lampman, James Tobin, Robert Theobald, and Edward Schwartz. Although not precisely a guarantee program in the conventional sense, the Report of the Advisory Council on Public Welfare also merits consideration.

Negative income tax: Friedman

In his book, *Capitalism and Freedom*, Professor Milton Friedman (of Chicago) suggests the adoption of what he terms a "negative income tax." As he explains it, we now have an exemption of $600 for each taxpayer and dependent under the federal income tax, plus a minimum standard 10 per cent deduction. Exemptions are double if the person is over sixty-five years of age or blind. If an individual has an income greater than the sum of his exemptions and deductions, he pays a tax on the balance. If his income is less than this sum, he simply pays no tax. In the latter situation, Friedman's proposal would result in the government making a payment to the individual. The rate of payment would be set at 50 per cent, this figure being designed to avoid discouragement to incentive. For illustrative purposes, assume that a family of four persons had exemptions plus deductions equal to $3,000. This figure would be a sort of "break-even" point. On any income above this amount, the family would pay a tax, as is now the case. But if the family had no income, it would receive $1,500 from the government – i.e., 50 per cent of the difference between the "break-even" amount and the income earned. If earned income was $2,000, the family would receive a payment of $500 – i.e., 50 per cent of the $1,000 difference between income earned and the "break-even" point. The cost of this plan is estimated at about $10 billion annually, if double exemptions are retained.

In considering Friedman's proposal, it is important to understand that he suggests the plan as a substitute for what he refers to as the "present rag bag" of measures in the social welfare field. Friedman is a "liberal" in the nineteenth-century meaning of that term and is strongly opposed to governmental intrusion into the free operation of the market. His negative income tax would take the place of OASDI (Old Age, Survivors', and Disability Insurance – what we usually refer to as "social security"), medicare, old-age and other forms of assistance, expenditures for public health institutions and activities, etc. In other sections of the book Friedman also suggests that we eliminate public housing, farm price supports, and the minimum wage and make other far-reaching changes in existing arrangements of our welfare state.

Income allowance: Lampman

The various proposals of Professor Robert Lampman (of Wisconsin) specify different rates of subsidy to be added to earnings as reported under the income tax, such subsidies being designed to bring each individual or family up to some predetermined minimum income level. The subsidy scales are regressive, in the sense that as earnings increase the rate of subsidy declines. This is designed to afford greater assistance to very low-income earners. The matter of the level of any subsidy involves two questions – that of disincentives and the political and ethical problem posed by people receiving government subsidies and ending up with incomes as large or almost as large as those who do not. These two considerations – incentives and equity – are inherent in all of the plans we are considering.

Table I illustrates the operation of one of Lampman's plans, which was prepared in 1965 as an unpublished study for the Office of Economic Opportunity and which uses the Social Security Administration poverty lines as a standard for determining the break-even point.

As indicated, a family with no income would be $3,000 below the break-even point. At a 50 per cent subsidy rate, the family would be paid $1,500 by the government, giving it a total income of $1,500. But if the family earned $500, the subsidy rate would fall to 45 per cent. Applied to the $2,500 difference between income and break-even point, this would produce a subsidy of $1,125 which, when added to the income earned, would give the family a total income of $1,625. The family thus keeps $125 of the $500 it earned: in effect, it pays a tax on earnings of 75 per cent. At higher earning levels, the subsidy rate declines, as shown; so does, of course, the effective tax on earnings.

TABLE 1. *Income Allowances Plan: Lampman. Based on a Four-Person Family and a Break-even Point of $3,000 per Year.*

EARNED INCOME	AMOUNT BY WHICH INCOME IS BELOW BREAK-EVEN POINT	RATE OF SUBSIDY	AMOUNT OF SUBSIDY	TOTAL INCOME, INCLUDING SUBSIDY
None	$3,000	50%	$1,500	$1,500
$ 500	2,500	45	1,125	1,625
1,000	2,000	38	750	1,750
1,500	1,500	33	500	2,000
2,000	1,000	25	250	2,250
2,500	500	25	125	2,625
2,800	200	25	50	2,850
3,000	0	0	0	3,000

Source: *Business Week*, November 13, 1965. Based on data supplied by Robert Lampman.

Depending on the standard chosen for the break-even point and the rate of subsidy selected, the costs of Lampman's different plans vary between $2 billion and $11 billion annually, based on 1963 statistics. The particular plan illustrated in Table 1 would cost approximately $8 billion, from which about $3 billion now spent for public assistance could be deducted. The proposals are predicated on keeping OASDI but eliminating some existing welfare programs.

Income allowances: Tobin

The plan of Professor James Tobin (of Yale), while somewhat similar to Lampman's approach, contains a number of imaginative variations. The government would begin by paying the "taxpayer" who is below the "break-even point" $400 per year for himself and each member of his family, commencing at zero income. This allowance would then be reduced by 33⅓ cents for every dollar the family earns. By permitting the family to keep two-thirds of each dollar earned, Tobin hopes that incentive to work will not be undermined. At an income of $1,200 per person per year, the allowance would be zero. Above that amount, the family would pay taxes at the rate of 33⅓ per cent of each additional dollar. Then, at some higher point, the regular tax schedule would apply.

Table 2 is an illustration offered by Tobin, using a five-person fam-

TABLE 2. *Income Allowances Plan: Tobin. Based on a Married Couple with Three Children.*

FAMILY INCOME BEFORE TAX OR ALLOWANCE	PRESENT TAX SCHEDULE		PROPOSED SCHEDULE	
	TAX (−)	INCOME AFTER TAX†	TAX (−) OR ALLOWANCE (+)	INCOME AFTER TAX OR ALLOWANCE
$	0	$ 0	$+2,000	$2,000
1,000	0	1,000	+1,667	2,667
2,000	0	2,000	+1,333	3,333
2,500	0	2,500	+1,167	3,667
3,000	0	3,000	+1,000	4,000
3,700	0	3,700	+767	4,467
4,000	−42	3,958	+667	4,667
5,000	−185	4,815	+333	5,333
6,000	−338	5,662	0	6,000
7,000	−501	6,499	−333	6,667
7,963*	−654	7,309	−654	7,309
8,000	−658	7,342	−658	7,342

Source: James Tobin, "The Case for an Income Guarantee," *The Public Interest*, No. 4, Summer 1966, p. 38. It should be noted that Professor Tobin has devised alternative plans. See "Do We Want Children's Allowances," *The New Republic*, November 26, 1967; "Helping the Children," *The New Republic*, December 23, 1967 (which discusses the foregoing); and "Is a Negative Income Tax Practical?," *Yale Law Journal*, November 1967. In the latter article, written with Professors Joseph Pechman and Peter Mieszkowski, some of the practical aspects of guarantees are examined.

*Point above which present tax schedule would apply.

†Assumes a standard 10 per cent deduction

ily. According to Table 2, a family of five with no income would receive $2,000 from the government annually ($400 times five persons). If the family earned $1,000, the subsidy would be reduced by 33⅓ cents for each dollar earned ($333), leaving a subsidy of $1,667 which, when added to the $1,000 earned, would give the family a total annual income of $2,667. At an income of $6,000, the subsidy would cease. Between that point and $7,963 the tax rate paid by the family to the government would be 33⅓ per cent, above which the current tax table would become operative. Tobin's plan would have families claim allowances on a current basis and receive monthly installments. Overpayments or underpayments would be adjusted each April 15, in the same manner as currently applies to the income tax program.

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Aside from purely mechanical matters, Tobin's proposal is predicated on a somewhat different philosophical basis than Friedman's. Tobin states that both a "structural" and a "distributive" strategy is needed to combat poverty. A structural approach is one designed to equip the poor to earn a decent living, of which various War on Poverty and Manpower Training Programs are examples. Presumably, Friedman would oppose these measures. A "distributive" method is based on income redistribution along guaranteed annual income or other lines. Both Friedman and Tobin would have their plans supplant other welfare payments, but to differing extents. Under Tobin's plan, OASDI would continue, with beneficiaries being ineligible for income allowances, but with the present earnings ceiling being liberalized. Tobin recognizes housing and medical care subsidies as difficult problems and would not immediately eliminate them. He estimates the total cost of his program at $12 to $15 billion annually, of which a large part of the approximately $5.5 billion now spent for public assistance could eventually serve as an offset.

Economic security plan: Theobald

This is undoubtedly the most far-reaching and controversial of the various income guarantee plans, both in philosophy and content. It was originally set forth in Robert Theobald's book, *Free Men and Free Markets*, first published in 1963. His association with the Ad Hoc Committee for the Fund for the Republic, in its memorandum entitled "The Triple Revolution," gave added interest to the proposal.

Basically, Theobald suggests his proposal as an answer to what he calls the "cybernetic revolution," i.e., the rapid and widespread use of computers and their application to machinery ("automation"). He is convinced that our capacity to produce goods through such technology is so vast that we will be unable to provide jobs at adequate income levels to a really substantial proportion of the work force. Since people must consume and because many will be unable to find employment, the traditional principle that only through work does one secure a claim to income must be abandoned in favor of a new concept. This involves the government guaranteeing to every individual a "due-income" as an absolute constitutional right, whether or not they work.

As outlined in Theobald's 1963 work, his Economic Security Plan would operate along the following lines. It would be composed of two elements, Basic Economic Security (BES) and Committed Spending (CS). BES would establish a minimum income floor under each individual. In the example Theobald uses, this would be $1,000 per year for each adult and $600 for every child. Thus, a man, wife, and two children would be entitled to $3,200. In case the family had income from work or other sources, this would not reduce the

BES entitlement dollar for dollar. Rather, those persons with income would receive a premium, which Theobald sets at 10 per cent for sake of discussion. Using his illustration, if the above family earned $2,000, its total income would be $3,400 – i.e., $2,000 earnings, plus $1,200 to raise this to the BES level of $3,200, plus $200 (10 per cent of the money earned). BES would replace social security, unemployment compensation, subsidies, and other assistance payments. However, Theobald recommends a universal medical-care program as a necessary adjunct.

The second element of the plan, Committed Spending (CS), which would not be immediately implemented, is designed to protect the earnings of those in the middle-income groups who find their customary living levels jeopardized by the displacements resulting from "cybernation." Again, using one of Theobald's examples, a person who left the work force at age thirty would have a CS entitlement, paid by the government, equal to 50 per cent of his average earnings over the previous ten years. For each year after age thirty that a person continued to work, 1 per cent would be added to the entitlement up to a maximum of 85 per cent at age sixty-five. Thus, if an individual at age sixty-five, with annual average earnings of $10,000 over the previous ten years, drew CS, he would receive a payment of $8,500 per year. Had he claimed CS at age forty-five, assuming the same average earnings, he would receive a 65 per cent entitlement, equal to $6,500. In no case could any CS recipient receive more than three times the appropriate BES benefits – e.g., $9,600 for a family consisting of a man, wife, and two children.

Theobald's plan would be financed from general tax revenues of the government. He is not specific on its cost, beyond the expression of his opinion that revenues would be adequate. Others have estimated the cost of the proposal at $25 to $30 billion per year.

Family security program: Schwartz

The proposal of Professor Edward E. Schwartz (of the University of Chicago) is essentially a straight-out guarantee scheme described in broad terms. Using a family of four as an illustration, his Federally Guaranteed Minimum Income (FGMI) could be set at any one of three levels: minimum maintenance level ($3,000 per year), economy level ($4,000 per year), or modest-but-adequate level ($5,000 per year). Every family head or single individual would file a statement of his anticipated income for the coming year, his income for last year, and information on the number of dependents. If his anticipated income for the coming year was below his FGMI, he would file a claim for a Family Security Benefit (FSB) in the amount of the difference. If it was above his FGMI, he would simply pay an income tax as now provided.

Schwartz indicates that an incentive feature could be incorporated into his plan. This would be a regressive formula similar to that contained in the Lampman proposal described above. Table 3 illustrates how the incentive element would operate. Using a $3,000 FGMI for a four-person unit, a family earning $1,000 year would retain no less than 40 per cent of earnings, those earning $1,000 to $1,999 would retain 35 to 40 per cent, and so forth, with the percentage of earnings retained falling as earnings rose, such sums being in addition to FSB payments. Families earning between $4,000 and $4,500 would neither receive a FSB nor pay any taxes. Those earning above $4,500 would receive no FSB and would pay an income tax on any earnings above this amount. While open to discussion on this point, Schwartz seems inclined against the inclusion of the incentive feature.

TABLE 3. *Income Allowance Plan: Schwartz. Based on a Four-Person Family and Using a Minimum Maintenance Allowance Guarantee Level.*

EARNED INCOME	FAMILY SECURITY BENEFITS RECEIVED OR TAXES PAID	TOTAL INCOME
$ 0– 999	$3,000–$2,400	$3,000–3,399
1,000–1,999	2,399– 1,700	3,399–3,699
2,000–2,999	1,699– 900	3,699–3,899
3,000–3,999	899– 0	3,899–3,999
4,000–4,999	0	4,000–4,499
4,500 and above	Tax on amounts above $4,500	4,500 plus

Source: Edward E. Schwartz, "A Way to End the Means Test," *Social Work*, July 1964, p. 9.

The cost of this plan would vary according to the FGMI standard selected. Annual expenditures by the government under each of the three alternatives would be as follows: minimum maintenance level, $11 billion; economy level, $23 billion; and modest-but-adequate level, $38 billion. From this could be deducted about $5.5 billion annually, the present cost of public assistance payments. Thereafter, according to Schwartz, savings from other welfare programs would serve as an offset "to the extent and rate that they could be phased out."

Evaluation of the proposals: differing goals

Complicating any evaluation of these income guarantee plans is the considerable difference among them as to the level of income that each would supposedly ensure to individuals and families. The guarantee levels range all the way from less than the Administration's poverty line in Friedman's and Lampman's plans to the poverty line in Theobald's BES proposal, from the poverty line to a "modest-but-adequate" level under Schwartz's plans (depending on the alternative selected), and from less than the poverty line to above that amount (in accordance with earnings) under Tobin's proposal.

Although no one would object to the holding of differing points of view on this score among the architects of these proposals, ideally, as a logical first step, there ought to be some accepted goal as to the guarantee level that would best accord with public consensus – provided that the guarantee approach to income maintenance is to be utilized. It would then be possible to measure proposals against such a standard, and derive conclusions about each. The plain fact of the matter is, however, that no such accepted or recognized criterion exists. Thus, it can be argued that any and all guarantee plans suffer from a degree of prematurity on this point.

Guarantee levels, incentives, and costs

These three factors pose what might be termed a "triple threat" in the devising of any guarantee plan. If it is to be acceptable, a plan should fulfill the following three objectives:

1. It should provide a guarantee level that is meaningful in terms of meeting the problems of income inadequacy.

2. It should not serve to undermine incentives to work. Closely related is the question of equity; i.e., should people who receive subsidies end up with incomes approximating the incomes of those who do not.

3. It should be reasonable in terms of cost.

Unfortunately, as will be shown, these considerations operate in opposition to one another. The achievement of one of the goals tends to result in the failure to measure up on one or all of the remaining counts.

Under fractional guarantee plans which do not propose to bring all incomes up to some predetermined level such as the poverty line, the goal of something approaching reasonable cost is achieved, but at the sacrifice of adequate income levels. Thus, Friedman's and Lampman's plans fall far short of ensuring even poverty levels of living, as does Tobin's proposal (but to a lesser degree) at the lower end of the earnings schedule. To the extent that this objective is not met, public assistance programs – which all income guarantee plans aim to eliminate to a greater or lesser degree – would still be necessary. Further, as pointed out by George H. Hildebrand, with the exception of certain families or individuals all the fractional guarantee proposals would fail even to meet the levels of income now paid under OASDI or some or all of the other public assistance programs now in effect. While it is true that many persons not now receiving any assistance at all would benefit from the universal coverage of these guarantee plans, this would be small consolation indeed for those

On the other hand, the full guarantee plans, such as those of Theobald and Schwartz, while they would achieve adequate income levels, do so at costs which are clearly prohibitive at present.

Inherent in any income guarantee scheme is the danger of disincentive. Friedman expressly recognizes this limitation in his plan, which is why he sets his guaranteed minimum so low; he can then argue that incentive would not be entirely eliminated. Theobald simply glosses over the whole problem, since he apparently expects many Americans not to be working in any case. Schwartz concedes the existence of this problem, but states that there is an absence of sufficient data about incentives and disincentives on which to formulate policy.

Indeed, the whole question of incentives is one about which far too little is known. As stated by the Council of Economic Advisors: "There is an abundance of assertion and anecdote regarding the impact of work incentives on low-income Americans, but very little real knowledge."

Certainly the old notion that workers prefer indolence to a higher standard of living, and will work only to the point necessary to stave off starvation, is not particularly credible in the United States today. (Witness the growing number of multiple wage earners among American families; the widespread desire of employees for overtime work, and the fact that, over recent decades, almost 60 per cent of our increased ability to produce has been taken in the form of more goods and services, whereas only 40 per cent has gone to increased leisure.) And it would clearly be ridiculous to be concerned about incentives among certain groups in the poverty category, such as the aged. All of this might well lead one to conclude that the problem of disincentive has been overstressed in the discussion of guarantee plans.

However, one must be cautious about making generalizations. Obviously, a guaranteed income plan will not destroy incentive (1) where none exists, and (2) where it strongly exists. But there is a large, vague area in between, and at least a portion of our welfare poor is to be found in it. It could be assumed that all of these people would respond to truly huge incentives; but it is not clear how many would respond to modest ones, as incorporated in the Friedman-Lampman-Tobin schemes. All of these schemes presuppose – what an overwhelming majority of Americans certainly believe – that it is better for those who can earn a living to do so, rather than to be dependent on the public purse. Yet an undetermined number of very poorly paid workers might prefer an inadequate guarantee to low earnings, as might those doing highly unattractive tasks or what Herbert Gans has termed "dirty work."

The problem of equity needs no special discussion because it is, in a sense, merely the obverse of the problem of incentives. Equity is, quite simply, *the reason* why the additional, earned income has to be taxed at a higher-than-normal rate. After all, something like one-third of all American families earn incomes that are above the poverty level but below the national median. These families, now largely unsubsidized, cannot be asked to sit back while poorer families are raised, by government subsidy, to income levels as high as their own.

The means test

One of the most attractive aspects of guaranteed income proposals, at least to those in the social welfare field, is the belief that these plans would eliminate the means test. Such tests, because of the demeaning way in which they have been utilized under public assistance programs, have long been the target of much criticism — and rightly so. But to assume that they will no longer be needed once a guarantee plan is adopted is simply wishful thinking.

Obviously, subsidy payments should not be made to the nonpoor. Under the various proposals, eligibility would be determined on the basis of income tax or other forms submitted to the federal government. The present income tax form excludes the reporting of social security, unemployment insurance, and workmen's compensation benefits; veteran's disability and public assistance payments; proceeds from life insurance policies; and interest on certain tax-free securities such as municipal bonds. Information on this income would have to be reported in order to avoid serious inequities as well as considerable leakage to the nonpoor.

Other questions and problems would also have to be faced. For example, would persons owning nonincome-producing property, even though they had small incomes, be treated in the same manner as persons with similar incomes and no such property? It is not being suggested that aged and needy widows be compelled to sell their homes as a condition of eligibility, such as might happen under present assistance programs. But there will plainly be cases wherein the level of income during any given period would not be a reliable indication of financial condition or need.

Or again: would certain taxpayers be tempted to drop wives and teen-age children as dependents in order that, when they filed separate returns, their subsidy payments would be more than the savings in taxes to the head of the household? This has been suggested as a danger by Thomas K. Hitch. Would an owner of rental property who had considerable savings use some of this fund to meet living expenses, meanwhile diverting the rental income to defraying deductible expenses toward improvement of the property — all the while collecting a subsidy on the basis that he had no taxable income?

The number of challenges to the more shrewd on such counts is genuinely fascinating.

To the extent that information not now supplied would have to be reported to the government, the result would be the application of something approximating a means test on a universal basis. And further, insofar as public assistance would still be necessary under any of the fractional guarantee plans, the means test as now constituted would continue in effect.

Administrative problems

Another appeal for guaranteed income plans has been made on the basis of their alleged simplicity and low cost in terms of administration. Here again, one confronts seemingly irreconcilable difficulties. Reports would have to be filed and subsidy payments made on some time basis (annually, quarterly, or monthly). But needs are something which must be fulfilled on a continuing basis, and a subsidy received on April 15 will not meet current expenses, nor is it likely that the lump-sum payments would be carefully rationed so as to cover expenses in the ensuing year. Quarterly payments would suffer from the same shortcoming, if to a lesser degree. And, insofar as a monthly basis was used to overcome this problem, administrative costs would be higher.

Furthermore, if current eligibility were determined on the basis of past reports or on estimates of income for a future period, overpayments or underpayments would inevitably occur, because circumstances between quarters would change and persons in lower income groups could not be expected to predict interruptions in earnings resulting from such eventualities as unemployment and sickness or accidents. Clearly, simplicity would not be a virtue of a guarantee plan to the millions of persons least capable of filing such returns – nor would ease or low cost of administration to the government.

Other considerations

There are a number of additional issues related to income guarantees that are a source of concern. Some of these have general applicability to all such plans, while others pertain only to specific proposals.

1. Income guarantees would treat the results of low earning capacity but not its causes. They would simply transfer income from those above certain arbitrary lines to those whose incomes fall below such figures. While undoubtedly not intended by their proponents, there is a pervasive suggestion emanating from these plans that the pay-

ments represent a sort of "social conscience money," as it is termed by Harry G. Johnson, paid by an affluent society to those of its members who do not share in a decent standard of living. Such payments of "conscience money" are easily justified on a short-term basis. But do we want them as permanent features of American society? Do we not wish to incorporate the poor into the mainstream of American life? Although there might be some small structural gains from such plans, as a result of altered habits and motivations of the poor once they came to enjoy more acceptable levels of living, the fact is that guarantee plans would do little to improve our human resources, to equip the able-bodied and nonaged poor to earn a better livelihood, and to contribute to our total social product. In this respect, manpower and vocational training programs are superior, albeit slower, alternatives. Similarly, insofar as income guarantees were regarded as substitutes for existing social welfare services or for such new proposals as family allowances, they would tend to undermine what progress toward individual and familial self-reliance might be achieved by these programs.

2. While one may be dissatisfied with the inadequacies of our present income maintenance programs, including the prevailing uses of the means test, it is quite another proposition to move to the other extreme and guarantee incomes regardless of economic contribution – not just to the aged and others from whom work cannot be expected, but on a universal basis. This could very well prove to be corrosive, not only to incentives, but to other values held by the recipients of such payments, as well as to those of their children. The long-run implications in terms of preserving a proper role for the state, and preventing too great a reliance thereon and ultimately a subservience thereto, are troublesome.

3. It is very unlikely that guaranteed incomes would accord with existing ethical values held by the American people. In a poll conducted in Minnesota in 1966, only 24 per cent of those questioned indicated that they would favor paying a negative income tax to those living in poverty. In the American ethic, the role of work is given a significant place as a means of personal fulfillment and satisfaction. To many, the thought that the right to income should be separated from work would be repugnant. Alvin L. Schorr feels that even the poor, if consulted, would reject the negative income tax.

4. There is a varying degree of presumption among income guarantee advocates, not only that our existing income maintenance programs have failed, but that such measures, even with new yet conventional additions, would be incapable of success. This attitude may well be tantamount to "throwing out the baby with the bath water." Existing measures have not failed due to lack of intrinsic soundness, but to our unwillingness to place adequate resources behind them. Are we to assume that the support given to a guaranteed

income plan, once it was adopted, would be much greater? True, the prerogatives of the various states in determining eligibility and benefit levels would be less important than is now the case. But, at the same time, the poor do not constitute an organized and articulate segment of the body politic, and the danger of the guarantee level eroding with the passage of time would be ever-present.

5. The plans of Friedman and Theobald raise particular questions concerning underlying assumptions. Although Friedman is undoubtedly as interested in alleviating poverty as are other income guarantee advocates, his negative income tax proposal appears to be but one of a number of suggested structural changes designed to remove institutions which impede a more perfect functioning of the market economy. Not everyone is likely to agree with him on the supreme importance of this. The thesis of Theobald, that we are on the verge of experiencing really massive unemployment resulting from a runaway "cybernetic revolution," is one that hardly any other economist takes seriously.

6. In their proposals, the various income guarantee advocates have discussed the relationship of their plans to the OASDI program, with some advocating its continuation and others suggesting that it be replaced. One wonders whether the option of abandoning this program is realistically available. Unlike public assistance measures, the OASDI system has a trust fund which has been built up over almost three decades by the excess of income from social security taxes over benefits paid out. The OASDI trust fund totals over $20 billion, this being held in the form of government securities. Interesting legal and moral questions arise concerning any proposed disposition of the trust fund, to which employers, employees, and the self-employed have contributed for a particular purpose. The political implications need no elaboration.

7. Would guaranteed income plans have a depressing effect on wages? Under Theobald's proposal, 90 per cent of any wage increase to employees would, in effect, go to the government through the mechanics of reducing the subsidy payments received; no less than 60 per cent of earnings above $1,000 would be subject to the same treatment under Schwartz's plan; and varying amounts would be involved in other proposals. The effects of this situation on both employers and employees as concerns their attitudes toward wage increases could be great, and it is not possible to predict what the results would be without more intensive study of this question than has been carried out this far.

Taken as a whole, the foregoing limitations to income guarantee plans ought to constitute sufficient grounds for looking elsewhere for solutions to the poverty problem and for improvements in our overall income maintenance system. My own predilection, as I shall make clear in a forthcoming book, is for a system of family allowances together with an expansion of manpower and training programs, additional measures to provide fuller employment, and improved public assistance and social services.

Advisory Council on Public Welfare

In its Report to the Secretary of Health, Education and Welfare in 1966, the Advisory Council on Public Welfare recommended a program for ensuring all families in the United States a guaranteed level of living. This would be done by the addition of a new title to the Social Security Act which would restructure existing social insurance and public assistance measures along the following lines:

1. A minimum standard of living, based on "modest-but-adequate" budgetary needs, and taking into account varying family sizes and circumstances, along with specified social services, would be guaranteed to every individual or family. The determination of the levels of benefits and services in each state would be made annually, as would each state's share in the costs of the program, the latter to be based on its individual fiscal capacity;

2. All persons whose incomes fell below the required levels would be entitled to receive assistance to the extent of the deficiency. Need would be the sole measure of eligibility. The entitlement would be enforced by various legal rights.

3. Any state that was willing to participate in the program by assuming its specified share of the costs would receive from the federal government the difference between such outlays and the total cost of the program in that state.

These recommendations would reverse the traditional roles of the federal and state governments, in the sense that the federal government would assume the primary responsibility for determining the scope, level of benefits, and financing of the various components of the public welfare program. That may be a good idea in itself. But in its report the Council gave no estimate of the cost of its proposed program. As was pointed out earlier, the "modest-but-adequate" level guarantee of $5,000 per year to a family of four persons suggested by Schwartz would require $38 billion annually. The cost of the Council's plan would probably exceed this figure. (After all, about 17.8 million families – 37 per cent of all families – are living at less than a "modest-but-adequate" level and would be eligible to receive some amount of financial assistance.) I think it is fair to regard such a cost as prohibitive, as things now stand. In addition, nowhere in its report does the Council consider problems of incentives and many of the other troublesome areas discussed above in connection with guarantee plans.

INCOME WITHOUT WORK

(*Source:* Henry Hazlitt. Paper prepared for the National Symposium on Guaranteed Income, Chamber of Commerce of the United States, December 9, 1966: 56-59)

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My assignment in this morning's symposium is not the guaranteed income, but what has been called the Negative Income Tax. But, as I shall presently show, these two proposals, with one important difference, come to essentially the same thing.

So at the risk of repeating what some of the other speakers have said, I should like to begin by pointing out some of the economic and moral weaknesses of the guaranteed income proposal.

This proposal, in the words of Mr. Robert Theobald, one of its principal sponsors, "would guarantee to every citizen of the United States * * * the right to an income from the Federal government to enable him to live with dignity." This guaranty would be unconditional. Every' 'dy would be guaranteed this income, regardless of whether or not ne worked, could work, or was willing to work. Having this income handed to him would be an "absolute Constitutional right," and not to be withdrawn "under *any* circumstances."

The sponsors have differed regarding the exact amount of this guaranteed income, but their estimate has centered somewhere between $3,000 and $4,000 a year.

Let us be quite clear about what the sponsors are proposing. The recipients are to continue to get this guaranteed income not only if they resolutely refuse to seek or take a job, but if they throw the handout money away at the races, or spend it on prostitutes, or whiskey, cigarettes, marajuana, heroin, or whatnot. They are to be given "sufficient to live in dignity," and it is apparently to be no business of the taxpayers if the recipient chooses nonetheless to live without dignity, and to devote his guaranteed leisure to gambling, dissipation, drunkenness, debauchery, dope addiction, or a life of crime.

The first thing to be said about this scheme economically is that if it were put into effect it would not only be enormously expensive to the taxpayers who were forced to support it, but that it would destroy the incentives to work and production on an unparalleled scale.

As even one of the contributors to Mr. Theobald's symposium, William Vogt, has remarked: "Those who believe that men will want to work whether they have to or not seem to have lived sheltered lives." And he goes on to point out, with refreshing realism, how hard it is even today, before any guaranteed income, to get people to shine shoes, wash cars, mow lawns, act as porters at railroads or bus stations, or do any number of other necessary jobs. Millions of service jobs are unfilled in this country because men and women will often prefer to exist on small welfare payments rather than to take these jobs.

Reproduced from: U.S. Congress. House. Resolved: that the Federal government should guarantee a minimum annual cash income to all citizens. House document no. 90-172, 90th Congress, 1st session. Washington, U.S. Govt. Print. Off., 1967. p. 124-129.

Who, in fact, let us ask ourselves, would be willing to take the smelly jobs, or any low-paid job, once the guaranteed income program is in effect? The guaranteed-income sponsors propose to pay, say, $3,000 to a family without any income, but to families earning some income they would pay merely the supplementary sum necessary to bring the total up to $3,000.

Now suppose, say, that you are a married man with two children, and your present income from some nasty and irregular work is $2,500 a year. The government would then send you a check for $500. But it would very soon occur to you that though you now had $3,000, you could have got this $3,000 without doing any work at all. You would conclude that you would be a fool to go on working at your nasty job or series of odd jobs for $2,500 when you could get $3,000 without doing any work at all.

So most of the fifth of the population now judged to be below the poverty line would stop producing even the most necessary goods and services that it is producing now.

The money cost of the guarantee, of course, would be enormously greater than any of its sponsors calculate, because these sponsors all assume that those who are getting less than the guaranteed income of $3,000 or $4,000 would nonetheless continue to work for the smaller incomes that they are already earning.

Not only would the scheme destroy the incentive to work, not only would it drastically undermine even the incentives of those earning more than the $3,000 guarantee (because of the heavy taxes imposed on them to pay the guarantee), but the scheme is morally indefensible. If "*everybody* should receive a guaranteed income as a matter of right" (and the words I have just quoted are Mr. Theobald's), who is to pay him that income?

On this point the advocates of the guaranteed income are either beautifully vague or completely silent. When they answer the question at all, they tell us it will be paid by the "government."

This is to talk as if the government were some shadowy entity that gets its money out of some fourth dimension. The truth is, of course, that the government has nothing to give to anybody that it doesn't first take from someone else. The whole guaranteed income proposal is a perfect modern example of the shrewd observation of the French economist Bastiatt more than a century ago: "The state is the great fiction by which everybody tries to live at the expense of everybody else."

None of the guaranteed-income advocates explicitly recognize that real "income" is not paper money that can be printed at will, but goods and services, and that somebody has to produce these goods and services by hard work. The proposition of the guaranteed-income advocates, in plain words, is that the people who work must be taxed to support not only the people who can't work but the people who won't work.

If you claim a "right" to "an income sufficient to live in dignity," whether you are willing to work or not, what you are really claiming is a right to part of *somebody's else's* earned income. What you are asserting is that this other person has a duty to earn more than he needs or wants to live on so that the surplus may be seized from him and turned over to you to live on.

This is an absolutely immoral proposition.

Now let us turn to the so-called negative income tax, which is a misleading misnomer for an income supplement, or subsidy.

This suffers, as I shall show, from most of the economic, political and moral vices of the guaranteed income. But it does have one important advantage over the guaranteed-income proposal in its cruder form: at least it would not destroy the incentive to work and produce to the same appalling extent.

Under the negative income tax, a man or a family would receive from the government a subsidy of 50 per cent, say, of the amount by which the family income fell below the so-called poverty-line income—let us say $3,000 a year. This means that if the family had no income at all it would receive a subsidy of $1,500. If it already had an earned income of $1,500, it would receive a government subsidy of $750. If it already had an earned income of $2,500, it would receive a subsidy of only $250. And so on.

Professor Milton Friedman, the distinguished author of this proposal, admits that, "like any other measures to alleviate poverty," his proposal would reduce "the incentives of those helped to help themselves;" but he goes on to argue, quite correctly, that it would not eliminate that incentive entirely, as the system of supplementing incomes up to some fixed minimum would. Under his plan an extra dollar earned would always mean more money available for expenditure.

I agree entirely that a subsidy calculated in this way—that is, one that would be reduced by only $1 for every $2 additional that the recipient was able to earn for himself—would not be nearly so destructive of incentives as the type of subsidy under which it would be pointless for the recipient to earn more on his own account.

In fact, some thirty years ago I put forward a similar proposal myself in an article in *The Annalist*, a weekly then published by *The New York Times*, on which I was an editorial writer. What I suggested was a relief payment that would be reduced by only $1 for every $2 of self-earnings by the relief recipient. The U.S. Government itself has very belatedly and on a quite limited scale adopted this device in calculating the social security payments to which a man over 65 but under 72 is entitled if he earns some money of his own.

But, as we shall soon see, the proposal has a snag in it.

The negative income-tax of Professor Friedman, as originally put forward in 1962 in his book *Capitalism and Freedom*, was a comparatively modest proposal. He suggested that if a man had no income at all, he would receive a basic subsidy of $300. No doubt, if some Congressman were to decide to try to get Professor Friedman's proposal enacted into law, he would insert this modest basic $300 in his bill in order to get it passed. But in a year or two this sum would be denounced as utterly inadequate. If the bill were then revised to subsidize any family income below $3,000, which would mean a government payment of $1,500 to a family that had no income at all, this basic sum in turn would soon be denounced as utterly inadequate to allow a family of four to live in "decency and dignity." In fact, the humanitarian reformers would soon be demanding a basic subsidy of $3,000 or $4,000 to a family otherwise without income, and we would be back to the same starting point as the guaranteed income.

Only—except for the fact that it would not destroy incentives as much—it would be even more expensive than the guaranteed income; because under it substantial subsidies would continue to be paid to people who were earning incomes of their own. If the basic subsidy to a family of no income were $3,000, families would continue to get some government subsidy until their incomes reached $6,000 a year. As the median family income in this country is only slightly above $6,000 a year, it is not hard to see that this scheme would be very expensive indeed.

The negative income tax, in other words, solves only a marginal problem connected with the guaranteed income. Instead of a rigid ceiling, it would provide for a gradual tapering off. But otherwise the negative income tax suffers from all the fatal flaws of the guaranteed-income proposal. Both would take money away from those who were earning it to turn it over to those who were not. Money would be given to people whose incomes were low (or who professed that their incomes were low), without any regard to the reason why those incomes were low. A person whose income was low or non-existent because he was a beatnik or a bum or a loafer or a drunk would get just as much, and no questions asked, as a person whose income was low or non-existent because he was blind or disabled or sick or the victim of some accident or circumstance beyond his control.

Enormous chiseling and fraud would take place under either scheme because both schemes seek to avoid a "means test." The means test is disliked by many reformers on two grounds—that it is "humiliating" or "degrading," and that it is administratively troublesome—"a comprehensive examination of means and resources, applicant by applicant."

The guaranteed-income advocates think they can do away with all this by using the "simple" mechanism of having everybody fill out an income-tax blank, and then the government would send a check to everybody for the amount that his income, so reported, fell below the government's set "poverty-line" minimum.

But we cannot escape so easily from a case-by-case and applicant-by-applicant examination. If we tried to shirk this, the amount of concealment and falsification that would be practiced by persons trying to get as high a guaranteed income as possible would probably be enormous. To minimize the swindling, the government would have to resort to at least as rigorous, and probably much more rigorous, an examination case-by-case and applicant-by-applicant, as it already does in administering current relief, unemployment benefits, and social security programs.

But to the charge that a means test for relief is necessarily humiliating, we may ask ourselves whether it is any more humiliating than the ordeal that the taxpayer must go through when his income tax is examined. It would be a strange double standard to insist that those who were being forced to pay the guaranteed income to others should be subject to an investigation from which those who applied for the guaranteed income would be entirely exempt.

So much for what is wrong with the guaranteed income and negative income tax proposals. But those of us who object to these schemes, no matter how costly and destructive of incentives and production, are almost certain to be met with the retort, "Well, what would *you* do? Let 'em starve?"

Now I do not think it is incumbent upon me, or any other opponent of either the guaranteed income or the negative income tax, to propose a substitute for these plans. The demerits of the plans remain precisely what they are regardless of the merits or demerits of any proposed "substitute" or alternative. The merits or demerits of any substitute I might propose, therefore, are for the purposes of this morning's discussion irrelevant.

Yet we are confronted with a grave problem, which we are bound to face candidly. Where any person, a child or an adult, is in fact helpless, or sick or disabled, or hungry, or jobless through no moral fault of his own, and where no private person or group is responsible for him, should "society," acting through government, make itself responsible? I think nearly everyone would answer Yes. Since very far back in history "society" has, in fact, assumed this responsibility—in England, to take only one example, ever since pre-Elizabethan days.

The problem is, granted this responsibility, how can the government mitigate the penalties of failure and misfortune without undermining the incentives to effort and success? And how can it prevent the abuse of relief and the ominous growth of an ever-bigger army of relief recipients?

I should like to suggest one partial but important solution to this problem. Let whatever government relief is given be extended in the form of a loan. This should probably be non-interest-bearing in the first year but bear a moderate interest thereafter. No relief recipient would be under any obligation to repay this loan, but as long as any part of it remained outstanding he would not be eligible to vote.

Would there be anything particularly cruel or callous or unnecessarily humiliating about this? I do not thing so. Indeed, the proposal of removing the privilege of voting from persons on relief is not original with me, but was recommended by some of the great liberals of the nineteenth and early twentieth centuries, among them John Stuart Mill and A. V. Dicey.

Mill, in fact, went much further, and even suggested in his *Representative Government*, published in 1861, that people who pay no direct taxes should not be eligible to vote. "Those who pay no taxes," he wrote, "disposing by their votes of other people's money, have every motive to be lavish and none to economize." To give them the franchise "amounts to allowing them to put their hands into other people's pockets for any purpose which they think fit to call a public one."

In any case, he went on, "I regard it as required by first principles, that the receipt of parish relief should be a peremptory disqualification for the franchise. He who cannot be his labour suffice for his own support has no claim to the privilege of helping himself to the money of others. By becoming dependent on the remaining members of the community for actual subsistence, he abdicates his claim to equal rights with them in other respects." And Mill went on still further to suggest that a person who had been on relief should not be entitled to vote until his name had been off the relief rolls for at least five years.

My own proposal is much milder than this. I suggest that all relief be stated in the form of a monetary debt equal to the cash value of the relief; that no relief recipient be eligible to vote as long as any part of his debt remains outstanding, but immediately eligible to vote again once the debt is repaid.

Such a restriction, I think, would have several important results. It would appreciably hold down the amount of relief. People who had any intention of repaying the loan would ask for less in the first place. The repayment of loans would itself greatly reduce the net cost of relief to the taxpaying community.

Most important of all, there would cease to be an enoromous vested interest in building up the volume and variety of handouts and the number of recipients. As the recipients would not have votes, demogogic politicians could not appeal to these votes; they would have to appeal exclusively to those who were paying the relief or would be expected to pay it. This would change the whole political atmosphere in which relief is discussed.

I think some such franchise limitation as I have suggested is absolutely necessary to prevent the welfare state from getting completely out of hand, as it now shows every sign of doing.

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PART III.—DEBATE PROPOSITION TWO: THAT THE FEDERAL GOVERNMENT SHOULD ADOPT A NEGATIVE INCOME TAX TO ASSIST ALL UNITED STATES CITIZENS LIVING IN POVERTY

THE CASE FOR THE NEGATIVE INCOME TAX: A VIEW FROM THE RIGHT

(*Source:* Milton Friedman. Paper prepared for the National Symposium on Guaranteed Income, Chamber of Commerce of the United States, December 9, 1966: 49-55)

The proposal to supplement the income of the poor by a fraction of their unused income tax exemptions and deductions—a proposal that I described and labelled a negative income tax in my book *Capitalism and Freedom*[1]—has been greeted with considerable (though far from unanimous) enthusiasm on the left and with considerable (though again far from unanimous) hostility on the right. Yet, in my opinion, the negative income tax is more compatible with the philosophy and aims of the proponents of limited government and maximum individual freedom than with the philosophy and aims of the proponents of the welfare state and greater government control of the economy. By exploring this paradox, I can perhaps restate in a somewhat different way the case for the negative income tax.

1. THE ENTHUSIASM ON THE LEFT

The enthusiasm on the left arises, I believe, from three different sources: (a) the negative income tax has been confused with a superficially similar but basically very different guaranteed minimum income plan; (b) the negative income tax has been treated as another program to be added to existing welfare programs rather than as a substitute for them; (c) there has been increasing recognition that present welfare arrangements limit the personal freedom of the recipients and demean both the recipients and the administrators of welfare.

In terms of my values, I deplore the first source of enthusiasm, have mixed feelings about the second, and heartily welcome the third. Let me expand on each.

(a) *Confusion between different plans.*—A negative income tax plan does provide a guaranteed minimum income. But this guaranteed minimum income is not equal to the income at which the taxpayer neither pays taxes nor receives a subsidy. This point, simple though it is, has been the source of much confusion. Let me illustrate. Under our current income tax, a family of four has exemptions plus standard deductions equal to $3,000. Hence, if such a family has a total income of $3,000, it pays no tax. This is the *break-even income*. If the family has a total pre-tax income of $4,000 (and uses the standard deduction), it has $1,000 positive taxable income and, at the current tax rate for that bracket of 14 per cent, pays $140 a year in taxes, leaving it with $3,860 in income after taxes. (See bottom line of illustrative table, Pg. 7). If such a family had a total pre-tax income of $2,000, it would have

[1] University of Chicago Press, 1963, pp. 190-195

a *negative* taxable income of $1,000. Under a negative income tax, it would be entitled to receive a payment, the amount depending on the tax rate. If the tax rate for negative taxable income were the same as for the first bracket of positive taxable income, or 14 per cent, it would be entitled to receive $140, leaving it with a post-tax income of $2,140. If the tax rate were 50 per cent, the highest rate that seems to me at all feasible and the one I used for illustrative purposes in *Capitalism and Freedom*, it would be entitled to receive $500, leaving it with a post-tax income of $2,500.

If the family had a zero pre-tax income, it would have a negative taxable income of $3,000, and, with a tax rate of 50 per cent, would be entitled to receive $1,500, leaving it with a post-tax income of $1,500.[2] This is the minimum income guaranteed by this particular negative income tax plan, whereas the break-even income is $3,000.[3]

Some active proponents of plans for a guaranteed minimum income, notably Robert Theobald and E. E. Schwartz,[4] have proposed simply "filling the gap" between a break-even level of income and the actual income of any family that receives less. This is equivalent to using a tax rate of 100 per cent on negative taxable income, which makes the guaranteed minimum income equal to the break-even level.

Though superficially similar to a negative income tax, such a plan is in fact radically different—just as a positive income tax levied at a 100 per cent rate differs radically from one levied at a fractional rate less than 100 per cent. The 100 per cent rate removes all incentives to earn any income subject to the tax. The fractional rate reduces incentives (compared to no tax) but does not eliminate them.

Similarly a 100 per cent rate on negative taxable income is as absurd as a 100 per cent rate on positive taxable income. Not only would it eliminate any incentive for persons eligible for the subsidy to earn income, it would give them a positive incentive to dispose of any income-earning property, provided it, together with other sources of income, yielded less than the income guarantee. For example, suppose a

[2] Note that under present laws, negative taxable income could be more than $3,000, since a taxpayer who uses actual rather than standard deductions could have exemptions plus deductions of more than $3,000. This is a point that deserves much more attention than it has received. On the one hand, it offers the possibility of introducing a desirable flexibility into the program. For example, it would offer a far better way than medicare or socialized medicine to finance by tax funds abnormal medical costs: simply permit such costs to continue, as now, to be a deduction in computing income. On the other hand, this point gives still more importance to undesirable deductions and exclusions under the present income tax. Such deductions and exclusions mean that a family with high income from tax exempt sources or with large deductions could not only avoid tax as it now does but could also qualify for subsidies. See section 3, below.

[3] For other sizes of families (tax paying units), the guaranteed minimum income and break-even income vary. With a 50 per cent rate on negative taxable income, and present law with respect to exemptions and standard deductions, these are as follows:

Family size	Guaranteed minimum income	Break-even income
1	$450	$900
2	800	1,600
3	1,150	2,300
4	1,500	3,000
5	1,850	3,700
6	2,200	4,400

[4] Edward E. Schwartz, "A Way to End the Means Test", *Social Work*, IX (July, 1964), 3-12. Robert Theobald, *Free Men and Free Markets* (New York: C. N. Potter, 1963), pp. 192-197, and Robert Theobald, ed., *The Guaranteed Income*, Doubleday, New York, 1966.

family owns a house which it rents out, which is its sole source of income, and from which it receives an income less than the minimum guarantee. Obviously, the sensible action is to give the house to a friend who is above the minimum income and who will know to show his gratitude for the gift. The giver would lose no income, since the foregone rent would simply be replaced by the government subsidy.

By removing from a class of people all incentive to work or even to own property, such a scheme would create a quasi-permanent class of the professionally indigent, for whom living on the dole was a way of life, not a regrettable and temporary necessity.

Proponents of such a scheme tend to estimate its cost as equal to the gap between the break-even incomes they specify and the current incomes of families with lower incomes. But this is a gross underestimate. It takes no account of the cost of replacing the current income that would disappear because families both above and below the break-even point would be tempted to stop working or to give away property.[5]

Some proponents of "gap-filling" plans have acknowledged the disincentive effects of their plans and have suggested modifications to provide some element of incentive to receive other income. However, the modifications are mostly trivial, paying only lip-service to the problem. And some proponents have even welcomed the disincentive effects, because they believe that automation threatens widespread unemployment, and hence that it is desirable to separate the receipt of income from work or property ownership.

If the confusion between these irresponsible plans and a responsible negative income tax were confined to the proponents of such plans, it would be of little moment. Unfortunately, it has not been. Many reasonable people have tended to reject the negative income tax because they have regarded it as equivalent to a filling-the-gap plan.[6]

In fairness, I should stress that filling-the-gap plans command only limited support. Most people on the left who favor a negative income tax recognize that a 100 per cent rate is absurd and favor a plan with a fractional rate much less than 100 per cent. Their enthusiasm for the plan has a different source.

(b) *An additional program.*—I have supported the negative income tax as a *substitute* for present welfare programs: as a device for accomplishing the objectives of those programs more efficiently, at lower cost to the taxpayer, and with a sharp reduction in bureaucracy. Many proponents of a negative income tax have favored simply adding it to existing programs.

I have mixed feelings about this source of support. On the one hand, in my opinion, we are now spending far too much on welfare programs of all kinds compared to their contribution to well-being of the community (see section 2(a), below). I would not like to see the negative income tax used simply as a means of adding still more to this total. On the other hand, the addition of a negative income tax is partly being suggested instead of other additions. The political reality may be that

[5] To add to the cost of the proposals, most proponents of gap-filling schemes have proposed guarantees much higher than the break-even incomes in footnote 3, above.

[6] See, for example, *The Wall Street Journal*, editorial "The Guaranteed Nightmare," January 31, 1966, and my letter to the editor, February 15, 1966.

the programs will be expanded in one way or another. If so, far better that it be in this way.

More important, we must look to the future. Whatever may be the original intent, I believe that a negative income tax will be so much more effective than current programs that, in the course of time, it would increasingly replace them, in the process diminishing the problem toward which all of the programs are directed.

(c) *Defects of present welfare arrangements.*—All responsible students of the problem, whether on the left or the right, have come increasingly to recognize that present welfare programs have grave defects, and, in particular, that direct relief and aid to dependent children demean both the recipients and the administrators.

I was much impressed some years ago when Herbert Krosney talked to me about a study of New York welfare programs he was engaged on—and which has since been reported in a splendid book, *Beyond Welfare.*[7]

In effect, he said to me, "You classical liberals are always talking about how big government interferes with personal freedom. The examples you give are always about things that matter to people like you and me—freedom of speech, of choosing an occupation, of traveling, and so on. Yet how often do you and I come into contact with government? When we pay our taxes or get a traffic ticket, perhaps. The people whose freedom is really being interfered with are the poor in Harlem, who are on relief. A government official tells them how much they may spend for food, rent, and clothing. They have to get permission from an official to rent a different apartment or to buy second-hand furniture. Mothers receiving aid for dependent children may have their male visitors checked on by government investigators at any hour of the day or night. They are the people who are deprived of personal liberty, freedom, and dignity."

And surely, he is right. No doubt, he who pays the piper calls the tune. No doubt, the taxpayer who pays the bill to support people on relief may feel that he has the moral as well as legal right to see to it that the money is spent for designated purposes. But whether he has the right is irrelevant. Even if he has, it seems to me neither prudent nor noble for him to exercise it. The major effect of doing so is to weaken the self-reliance of the recipients, diminish their humanity, and make them wise in the stratagems for evading the spirit of the restrictions imposed on them. And the effect on the administrators is no more salutory. Instead of welfare workers bringing counsel and assistance to the poor, they become policemen and detectives; enemies to be outwitted. That is a major reason why it is so hard for large cities to staff their welfare agencies and why they experience such high turnover.

It would be far better to give the indigent money and let them spend it according to their values. True, they may spend much of it in ways we disapprove of—but they do now, and not all the red-tape in Washington will keep them from finding ways of doing so. If we spent the same amount on the poor in total, they would have more to spend—because of savings in administrative costs—and they would get more satisfaction per dollar spent—because they would waste less in cir-

[7] Holt, Rinehart, and Winston, New York, 1966.

cumventing the bureaucracy and would use the money for what they value most. In addition, at least some would grow in the course of making their own decisions, and would develop habits of independence and self-reliance. And surely, if social workers are hired on government funds, they should devote their energies to helping the indigent, and not spying on them.

This is the aspect of the negative income tax that I believe has appealed most strongly to the left, and properly so. Here is one area where it has become patent how detailed government intervention affects the lives of its citizens; how it corrupts both the controller and the controlled. Having learned this lesson in one area, perhaps the well-meaning people on the left will be led to look at other areas in a new light.

2. THE HOSTILITY ON THE RIGHT

The hostility toward the negative income tax on the right is partly an automatic reflex to the enthusiasm for it on the left, partly, it is a valid reaction against fill-the-gap plans. But hostility arises also from two very different sources: first, the belief that a guaranteed minimum income introduces a new principle into the relationship between the government and the people that would greatly weaken the incentives on the part of the poor to help themselves; second, the political judgment that it will not be possible to keep a negative income tax within reasonable bounds.

(a) *The weakening of incentives.*—The first source of hostility confuses labels with substance. The elementary fact is that we now have a governmentally guaranteed minimum income in substance though not in name. That is what our present grab-bag of relief and welfare measures is. In some states, it is even written into the law that anyone whose income is "inadequate" is entitled as a matter of right to have it supplemented and brought up to an "adequate" level, as judged of course by the welfare agencies. And whether explicitly specified in law or not, the same thing is true almost everywhere in the U.S.

The most obvious component of the present *de facto* guaranteed minimum income is direct relief and aid to dependent children. Aside from the interference with personal freedom and dignity already referred to, these programs have the worst possible effects on incentives. If a person on relief earns a dollar, and obeys the law, his or her relief payment is reduced by a dollar. Since working generally involves costs—if only for better or different clothes—the effect is to penalize either industry or honesty or both. The program tends to produce poor people, and a permanent class of poor people living on welfare, rather than to help the unavoidably indigent. And it does so at high cost in waste and bureaucracy.

But this is only the tip of the iceberg. We have a maze of detailed governmental programs that have been justified on welfare grounds—though typically their product is illfare: public housing, urban renewal, old age and unemployment insurance, job training, the host of assorted programs under the mislabelled "war on poverty," farm price supports, and so on at incredible length.

Estimates of how much we are now spending on welfare programs vary widely depending on what specific programs are included. A modest estimate, which excludes entirely veteran's benefits and educational expenditures, is that federal, state and local governments are spending roughly $50 billion a year. Much of this money is simply wasted—as in the agricultural programs. And most of it goes to people who cannot by any stretch of the imagination be classified as poor. Indeed, from this point of view the direct public assistance programs at least have the virtue that people who receive the payments clearly have a lower average income than the people who pay the taxes. There is not another welfare program for which this is unambiguously true. For some—e.g., urban renewal and farm price supports—the people who are hurt almost certainly have a lower average income than the people who are helped. For social security, the situation is more complex but it may well be that on net it involves transferring funds from the poor to the not-so-poor rather than the other way.

The welfare iceberg includes also measures that impose restrictions on private transactions, and do not require direct government expenditures, except for enforcement. The most obvious is minimum wage rate legislation. Other items are the Walsh-Healy and Davis-Bacon Acts, and the whole range of legislation conferring special immunities on labor unions. The effect of most such legislation is to increase the number of indigent people. The minimum wage rate, for example, prices many unskilled workers out of the market and is the major explanation, in my judgment, for the tragically high unemployment rates among teenagers, especially Negro teenagers.[6] These measures involve a confusion between *wage-rate* and *family-income*. Persons who are capable of earning only low wage-rates are for the most part youngsters or extra family members whose earnings supplement those of the main breadwinner. But even where the worker is the main breadwinner, it is surely better that he be free to earn what little he can than that he be unemployed, and better that if government funds are to be used to aid him, they be used to supplement his earnings, not to replace them.

The negative income tax would be vastly superior to this collection of welfare measures. It would concentrate public funds on supplementing the incomes of the poor—not distribute funds broadside in the hope that some will trickle down to the poor. It would help them because they were poor, not because they were old or disabled or unemployed or farmers or tenants of public housing. These characteristics are no doubt associated with poverty, but the association is very far from perfect.

Because the negative income tax is directed specifically at poverty, it would both help the indigent more and cost far less than our present collection of programs. One careful estimate, by Christopher Green, sets the cost of the 50 per cent plan outlined above at $7 to $9 billion for 1964 (if public assistance payments are excluded from the income base used in calculating taxable income).[7] In that year, public assist-

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[6] See *The Minimum Wage Rate, Who Really Pays*, an interview with Yale Brozen and Milton Friedman, Free Society Association, Washington, 1966.

[7] Christopher Green, *Transfer-by-Taxation: An Approach to Improved Income Maintenance*, Background paper prepared for a conference at The Brookings Institution (The Brookings Institution, Washington, D.C., April, 1966), p. 277.

The lower estimate ($7.1 billion) assumes that double exemptions are not granted the aged in calculating taxable income; the higher estimate ($8.8 billion) assumes that they are.

ance expenditures alone totaled $5.1 billion. Clearly, the elimination of public assistance plus only a modest reduction in other programs would be enough to finance that particular negative income tax with no net cost.[10] And yet this 50 per cent plan would provide more assistance to the bulk of the indigent than they are now receiving.[11]

Moreover, by substituting a fractional rate for the present 100 per cent rate, the negative income tax would give the indigent *more* incentive to add to their income by their own activity than they now have. Hence the above estimates overstate, and in my view significantly overstate, the net cost. Furthermore, these estimates make no allowance for a number of indirect benefits. Integrating the payment of assistance with the tax system would improve collection and reduce evasion under the income tax, reduce the concealment of income that takes place under our present relief programs, and permit elimination of most of the present bureaucracy administering the welfare programs.

Of course, the negative income tax at any reasonable level would not meet the specific needs of every indigent family. Being general and impersonal, it cannot be adapted to cases of special hardship, and no doubt such cases would exist. However, by providing a basic minimum, it would reduce such cases to a manageable number, which could be taken care of by private charity. In my opinion, one of the great costs of the proliferation of governmental welfare programs is the elimination of a basic role for private charity, with its flexibility, diversity, and adaptability. An indirect virtue of the negative income tax is that it would provide an important place for private charity to serve precisely that function which private agencies can serve best—handling the special case.

If we lived in a hypothetical world in which there were no governmental welfare programs at all and in which all assistance to the destitute was by private charity, the case for introducing a negative income tax would be far weaker than the case for substituting it for present programs. In such a world, the negative income tax would indeed weaken incentives to work. For such a world, I do not know whether I would favor a negative income tax—that would depend on how effectively private charity was in fact providing for the destitute. But, whether desirable or not, that is not our world and there is not the remotest chance that it will be in the foreseeable future. Those, like myself, who would like to see the role of government reduced, only harm our own cause by evaluating a program by an unreal standard.

(b) *The political problem.*—A second major source of hostility from the right to the negative income tax is concern about its political

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[10] Precise calculations require taking into account the fact that some part of other transfer funds go to persons with low incomes, so the reduction or elimination of such programs would increase the amount of negative income reported. There is not therefore a dollar for dollar saving. Because the above estimates exclude assistance payments from the tax base, this does not apply to the elimination of public assistance.

[11] Green (*ibid.*, pp. 163-165), compares present Aid to Families with Dependent Children (AFDC) with payments under this 50 percent plan, on the assumption that the negative income tax payment would be the only income of the recipients. Even under this extreme assumption, he finds that only three states (New York, New Jersey, and Pennsylvania) are now paying under AFDC more than the recipients would get under the negative income tax. For Old Age Assistance (OAA), the problem is more complicated because of the need to allow for OASDI benefits. Green estimates that, under the 50 percent plan, "the elderly poor receiving public assistance would not receive as much income * * * as they are presently receiving through PA (public assistance) or a combination of PA and OASDI. However, the difference is not absolutely very great" (p. 165).

effect. If we adopt an open and above board program for supplementing the incomes of people below some specified level, will there not be continued political pressure for higher and higher break-even incomes, for higher and higher rates on negative income? Will the demagogue not have a field day appealing to the have-nots to legislate taxes on the haves for transfer to them? Will not the first sign of this process be the adoption of the negative income tax as an addition to all other programs rather than as a substitute?

These are all important questions. Clearly the dangers exist. But, like the incentive question, they must be evaluated in terms of the world as it is, not in terms of a dream world in which there are no governmental welfare measures. The relevant political question is whether the negative income tax is more susceptible or less susceptible to these dangers than alternative programs of the kind we now have or are likely to get. To this question, the answer seems to me clear: the negative income tax is less susceptible.

Why have the present grab-bag of programs been adopted? Because each appeals to a special interest that is willing to fight strongly for it, while few are willing to fight strongly against it; because the disinterested who seek to promote the general interest have been persuaded that each measure will contribute to helping a group that is disadvantaged; because, for many of the measures, there was no clear price tag, and the program could be voted without the simultaneous imposition of taxes to pay for it; because for still others, there are no direct costs at all—minimum wages are perhaps the clearest example; because, finally, no one who opposed the programs had an effective alternative to offer that would meet the real problems.

Politically, the right solution is to have a comprehensive program whose cost is open and clear. That is precisely what the negative income tax is. By linking it intimately with the general income tax structure, there is no way to raise the break-even incomes without raising the exemption for tax purposes, which clearly requires a higher rate on incomes above the exemption. The cost of the payments is in one lump sum that can be calculated and will be painfully visible to every taxpayer. It will be obvious that every rise in the rate applied to negative taxable income raises the cost. It may still be that the lower income groups will form a coalition to despoil the upper income groups for their benefit—but that danger will be less than now, when we are in the position of having the dog's tail cut off by inches, on the specious plea of benefiting the disadvantaged. Once the issue is open and clear, we must rely on the good sense and responsibility of the electorate. And I for one believe that experience has shown that we can rely on it; that in every Western country, the electorate has shown that it is proof—though clearly not 200 proof—against demagogic appeals simply to share the wealth.

The present problem is to halt the proliferation of the bad programs we now have and ultimately to dismantle them. But while these programs are on the whole bad, more or less incidentally they do help some people who are disadvantaged. Can we in good conscience mount a political attack on them unless we can provide an alternative way to achieve their good results? Can we be effective, unless we have a satisfactory answer to the inevitable charge that we are heartless and want to let the poor starve? And would we not deserve that charge, if we had no alternative? Most of these programs should never have been enacted. But they have been and they must be dismantled gradually, both for the sake of social stability and because the government has the moral responsibility to meet commitments it has entered into. The negative income tax is a way to replace existing programs gradually.

An additional enormous political advantage of a negative income tax compared with our present programs is that it does not generate a large bureaucracy to provide political patronage to the powers that be. It cannot be used as a political slush fund, as so many current programs—notably in the war on poverty—can be and have been used.

There is no way whereby the bulk of us can tax ourselves to help t' less fortunate that does not have political dangers. The negative income tax comes closer, in my opinion, to being politically consistent with a limited government and a free economy than any other method I have heard of.

3. THE INCOME TAX AS A WHOLE

Converting the general idea of a negative income tax into a concrete proposal raises many specific issues. These are identical with those that arise in constructing a positive income tax: the unit to be taxed, the receipts to be treated as income, the deductions and exclusions to be permitted from income, the break-even points for families of different size, the rate schedule for negative taxable income. So far I have implicitly accepted the specifications for these items embodied in our current income tax, adding only a single flat rate of 50 per cent for negative taxable incomes to have a specific illustrative plan.

But our current income tax clearly has many deficiencies, some of which are highlighted by considering extending the tax below the present exemptions. For example, consider a taxpayer all of whose income is in the form of interest from tax-exempt state and local securities. For tax purposes, he has a zero income before exemptions and deductions, hence would qualify for a negative tax payment of $1,500 (for a family of four), even though he may have a million dollars of income.

Or again, the tax rate of 50 per cent I have used is much too high. I should prefer a lower rate. Yet, with current exemptions, a lower rate would produce guaranteed minimum incomes so low compared to our present standards of indigence that the negative income tax could not be regarded as a satisfactory alternative to present programs. The reason is that current exemptions are far too low. They are a relic of wartime experience and have not been raised even to allow for the price rise since then. In real terms, they are far lower than at any prior date.

One advantage of looking at the problem of helping the poor in terms of negative taxes is that it forces us to look at our tax structure in a new light. Clearly, this is not the occasion for a comprehensive discussion. It may, however, serve to give some perspective if I outline the kind of personal income tax that seems to make most sense as an efficient structure both for raising governmental funds and for helping the poor.

The most important desideratum is a drastic lowering of the graduated rates combined with a drastic broadening of the base by eliminating existing exclusions and deductions. My own preference is for a single flat rate above and below much higher exemptions than now, with no exclusions or deductions except for strictly defined business and occupational expenses and perhaps medical expenses beyond some minimum. The present graduated rates are a fake. In practice, the loopholes mean that little revenue is produced by the higher rates and that the actual incidence of the tax is heaviest in middle income groups. Yet so long as the rates are highly graduated, the loopholes are necessary if the tax system is not seriously to weaken incentive and productive efficiency.

The solution is simultaneously to introduce a flat rate at a moderate level and to eliminate the loopholes. To be specific, I would eliminate the present exclusion of interest on state and local securities, as well as the present deductions for percentage depletion, interest, contributions, and taxes (except as they may be business expenses); integrate the corporate with the individual tax, and include capital gains in full, preferably on an accrual basis, and possibly with an adjustment to eliminate the effect of changes in the general price level.

This may seem a long way off from negative income taxes, yet it is closely linked. With a broadened base, current exemptions could be raised drastically and rates lowered for both positive and negative taxable income, yet the total revenue yielded by the income tax kept unchanged. To be specific, suppose that the exemtpions (and standard deductions) were doubled—to \$6,000 for a family of four—and that the single rate of 25 per cent were imposed on all income below and above the exemption. This would yield the same minimum income guarantee of \$1500 for a family of four as the plan discussed above and higher incomes for people with some other income. It would provide a greater incentive to the poor since they would keep 75 cents out of every additional dollar. It would raise taxes for few, if any, of those people who now pay taxes on all their income and who take the standard deduction. Yet some rough calculations suggest that it would probably yield as much as our present income tax.

If this is anywhere near right, the actual yield would be much higher since such a tax structure would greatly reduce the incentive to engage in costly schemes to avoid income taxes and would greatly increase the incentive to add to income, raising the tax base on both counts.

4. SUMMARY

In *Capitalism and Freedom*, I summarized the advantages of the negative income tax as follows:

"It is directed specifically at the problem of poverty. It gives help in the form most useful to the individual, namely, cash. It is general and could be substituted for the host of special measures now in effect. It makes explicit the cost borne by society. It operates outside the market. Like any other measures to alleviate poverty, it reduces the incentives of those helped to help themselves, but it does not eliminate the incentive entirely, as a system of supplementing incomes up to some fixed minimum would." [12]

[12] P. 192.

I described "The major disadvantage of the proposed negative income tax" as "its political implications." I went on, "It establishes a system under which taxes are imposed on some to pay subsidies to others. And presumably, these others have a vote. There is always the danger that instead of being an arrangement under which the great majority tax themselves willingly to help an unfortunate minority, it will be converted into one under which a majority imposes taxes for its own benefit on an unwilling minority. Because this proposal makes the process so explicit, the danger is perhaps greater than with other measures."

As I have thought further about the subject, and have participated in the widening discussion of the proposal, I have seen no reason to change my opinion that the advantages I listed are indeed advantages. I have, however, been led to add a number of others, in particular, that the negative income tax does not interfere with the personal freedom or undermine the dignity of those helped, and that it does not demean and degrade the people who administer it, as other methods of giving assistance do.

I have also changed my opinion about the political implications I listed as a disadvantage. I now believe that because it is general and linked to the positive income tax it is less likely than are other plans to be extended to unreasonable and dangerous limits. And I would now list as one of the major advantages of the negative income tax that, as a proposal, it offers a platform from which an effective political attack can be launched on existing undesirable programs, and, if enacted, it would remove the specious excuse now offered for every newly suggested expansion of the Federal bureaucracy—that it is "needed" to help one or another disadvantaged group.

EXAMPLE OF INCOME TAX INCORPORATING 50 PERCENT RATE ON NEGATIVE TAXABLE INCOME

[Family of 4; existing exemptions and standard deduction, existing rates on positive income]

Total income before tax	Exemptions and deductions	Taxable income	Tax rate (percent)	Tax	Income after tax
0	$3,000	-$3,000	50	-$1,500	$1,500
$1,000	3,000	-2,000	50	-1,000	2,000
$2,000	3,000	-1,000	50	-500	2,500
$3,000	3,000	0			3,000
$4,000	3,000	+1,000	14	+140	3,860

THE NEGATIVE INCOME TAX: A REPUBLICAN PROPOSAL TO HELP THE POOR

(*Source:* The Ripon Forum, April 1967)

(NOTE.—Footnotes and references to political personalities have been deleted.)

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Poverty means insecurity and dependence. The insecurity of never knowing where the next dollar will come from discourages poor people from seeking new opportunities. The dependence on welfare administrators saps them of the initiative to make their own decisions. The Republican Party believes that the poor man ceases being poor only when he is willing and able to make his own way in the economy, when he takes control of his life. To conquer poverty we must break down the barriers to free participation in the economic life of our Nation. This means providing an adequate education for everyone; it means eliminating discrimination in hiring and housing; it means above all reducing the insecurity and dependence of the poor.

We must find a way to supplement and stabilize low incomes without interfering with the natural freedom and incentives of the market. This can be done if the Republican Party stands by its traditional economic realism and fights for an attack on dependence and insecurity. Ripon urges it to commit itself to a Negative Income Tax and to make this commitment the cornerstone of an effective alternative to the mismanaged, miscellaneous and ineffectual War on Poverty that has been put forth by the Johnson Administration.

The Ripon Society proposes that the United States increase incentives and opportunities for economic advancement through the adoption of a Negative Income Tax system.

I. WHAT IS NEGATIVE INCOME TAX?

A simple formula (so much per adult, so much per child) determines a "standard" income for every family. The family receives a fixed percentage, called the tax rate, of the difference between its earned income and the standard. These income transfers come in payments, called the Negative Income Tax, which decreases gradually as income increases. All families with incomes below the standard—not just those that are unemployed—receive Negative Income Tax payments.

For example, suppose the standard income for a family of four is $5,500, and the tax rate is 50 percent. If the family earns nothing, it gets $2,750 (50 percent of $5,500). If it earns $1,000, it gets $2,250 from the Negative Income Tax, and has a total income of $3,250, $500 more than before. The Negative Income Tax encourages families to move up the income scale until they can begin to pay positive taxes. In 1966 both the national Commission on Technology, Automation and

Economic Progress and the Advisory Commission on Public Welfare endorsed similar proposals, as did the National Crime Commission in February, 1967. Yet President Johnson has delayed even a research report on the proposal until 1969.

The Negative Income Tax is not a new concept; already almost 60 countries have a similar program known as the family allowance. The Negative Income Tax has gained the support of many of the nation's most respected economists, both Republican and Democratic. Henry Wallich, a member of President Eisenhower's Council of Economic Advisors, supports the idea. One of its first proponents was University of Chicago economist Milton Friedman, Barry Goldwater's chief economic advisor during the 1964 presidential campaign, who proposed in 1962 the replacement of many welfare-state programs by the Negative Income Tax. Yale economist James Tobin, a recent member of the Council of Economic Advisors, has written extensively advocating the idea. Harvard's Daniel Moynihan and Dr. Martin Luther King have suggested variations of the plan.

The Negative Income Tax emphasizes individual incentives to find and create jobs, and the natural efficiency of free markets in eliminating poverty. The Negative Income Tax embodies Republican concern for human dignity, civil rights, and individual free economic enterprise. After careful study, the Ripon Society concludes that the Negative Income Tax is the fairest and most efficient way to accelerate the natural processes through which the American economy eliminates poverty.

The United States can institute a Negative Income Tax system providing significant improvement in both incentive and living standards at a cost of ten to twelve billion dollars a year. This represents the natural increase in tax revenues from two years' growth of our economy. This program, which will be given in detail later in this paper, can be introduced gradually over five years, the cost rising about $2 billion each year, with no increase in positive tax rates.

II. ADVANTAGES OVER PRESENT PROGRAMS

Present welfare systems, because of their effects on incentives, freedom, equality and the efficiency of the economy perpetuate poverty. The Negative Income Tax will change the economic environment of the poor in ways that encourage poor people to help themselves. It will create incentives to find work; it will end the debilitating dependence on bureaucratic administrators of present programs; and it will eliminate the use of poverty money for political ends. Most importantly, it will reach many of our poorest citizens who are not being helped by the inefficient and inadequate programs now in existence. In all these ways the Negative Income Tax is superior to present welfare and poverty programs.

1. *Incentives*

Current welfare programs actually discourage recipients from seeking employment. A recipient of welfare at the present time cannot increase his total income by increasing his earned income. If a member of a family receiving $3,000 a year in welfare earns $1,000 the next year, welfare payments drop by exactly $1,000, leaving total income unchanged. For these people the welfare system breaks the link between extra effort and extra income. They have no financial incentive to find or train for a job.

A recent account of the problems of a family on welfare illustrates this. Mrs. Pressley lives in Harlem with six children.

"That's one reason why I went to work," Mrs. Pressley explained, "so I could have a little more money for my family. It's not much more, though, and it doesn't go very far when you add up the car fare and cleaning bills as such."

Before she went to work in July as a part time neighborhood aide for the Urban League's Open City program that promotes housing desegregation, Mrs. Pressley had received $184 twice a month from the Welfare Department. The Department now deducts her weekly salary ($30) from the welfare allowance but adds employment expenses (carfare, lunch, clothes, cleaning bills, etc.) so that her combined income now comes to $203 twice a month. * * *

Mrs. Pressley said that in the past, when she tried to work while on welfare, things did not go smoothly. "Once, I was working, and I told the investigator not to call the employer and that I would show him my pay receipt as proof. He called my boss to check and I was fired the same day—many people don't want clients working for them."

Mrs. Pressley has the will to work, but it is clear that she is not benefiting from it financially, (when she discovers this, she may stop working) It is also clear that the whole atmosphere of welfare administration discourages employment. Under the Negative Income Tax, everyone, no matter how small his earned income, can keep something extra if he earns something extra. Families are encouraged to move up the income scale and out of poverty.

2. Freedom

The Negative Income Tax will also work a radical and constructive revolution in the attitudes of the poor towards their own life.

The philosophy of paternalism pervading our welfare system does little to develop the confidence of the poor in their own ability to direct their lives. The recipient of public assistance suffers a far greater degree of public control over his everyday affairs than the rest of us: he is deprived of important economic and political freedom.

Often, the welfare recipient feels that he is forced to accept the advice of his caseworker. Professor William A. Klein notes that "welfare departments have very broad discretion in awarding aid and in varying the amount to meet special needs: * * * to many recipients the caseworker may be the embodiment of power and authority; and * * * caseworkers are likely to be convinced that the services offered are ones that are badly needed. In addition, the welfare recipient's failure to accept services might induce the caseworker to invoke, or threaten to invoke, certain statutory provisions that the recipient would probably find highly objectionable."

This policing of a welfare client's life extends to practices that are not worthy of our nation. Various detective measures to uncover possible welfare fraud have seriously infringed upon the privacy of welfare recipients. Midnight raids by caseworkers hoping to find female recipients in bed with boyfriends or husbands are not uncommon. The constitutionality of such practices is open to serious doubt, but few welfare recipients are able to mount a legal challenge against these degrading practices.

In fact, the social worker meddles in every aspect of a recipient's life, even to the extent of selecting items in a recipient's budget. One caseworker complains:

Give us some independence in dealing with the client. * * * We come out of college wanting to help people, but we are policemen. We must check how much money they spend. We have to make sure they pay the rent and don't waste any money on cigarettes or a tube of lipstick.

Every time a welfare client goes to the bathroom we have to make out a form. We can't be their friends. We represent the oppression of the unfeeling state.

A welfare recipient cannot by his own action control either his income or the way that it is spent and becomes accustomed to letting other people make decisions and take initiative. No wonder so many poor people stop caring and develop attitudes of futility and despair. Under a Negative Income Tax everyone will have the freedom to decide his own priorities and desires in spending his income. The experience of buying freely in a money economy is an important factor in developing the self-reliance and confidence that many poor people lack. The Republican Party has long recognized the role the free market can play in enriching people's lives and efficiently satisfying their needs. Must the poor—just because they are poor—be excluded from this part of American life?

3. Equality

The present system puts the heaviest financial burden on those depressed and underdeveloped areas of the country which are least able to afford them. The result is inequitable difference in state programs and standards. For example, even programs financed largely by federal funds such as Aid to the Families of Dependent Children (AFDC) are applied in quite contrasting manners by various state authorities. This variance in standards is an incentive for economically senseless migration to take advantage of more generous programs. Residency requirements instituted to prevent this "welfare shopping" are equally senseless barriers to mobility of the labor force and serve to keep aid away from newly arrived immigrants just when they need it most.

While certain of the wealthier states of the North still possess substantial poverty pockets in their urban ghettos, the greatest concentration of poverty in America is found in the South, the Border States, and the Great Plain States.

Economic progress in such regions of our nation is virtually impossible today because the inhabitants lack the purchasing power to support an economic expansion. Past poverty and associated low skill levels combine to discourage new industry from locating in these areas. While Negative Income Tax payments will do little immediately to raise skill levels in a poverty area, they will generate considerable purchasing power. In such areas as Harlan County, Kentucky, the added income which will flow from a Negative Income Tax will provide a basis for business vitality and create additional jobs. Sales and service jobs as well as jobs in light manufacturing will open up once a local market exists to support them.

4. Welfare Politics

In the northern ghetto where welfare has become a way of life, entrenched political machines perpetuate their existence with the implied threat of withholding the essential welfare check. Such political intimidation is a disturbing feature of present public assistance programs. This happened frequently in Chicago.

* * * * * * *

Welfare recipients were exceedingly reluctant to serve as poll-watchers or otherwise publicly identify themselves with anti-organization candidates for fear that they would lose their welfare. The mere fact that a welfare recipient feels vulnerable to the withdrawal of his benefits often suffices to keep him politically passive.

Abuses and intimidation are not practiced solely in the ghetto; in many areas of the South, Negroes have been denied benefits for which they are clearly eligible. Often unaware of their rights and lacking access to legal assistance, the unsuccessful applicant can do little to resist this discrimination. The NAACP Legal Defense and Educational Fund has documented some of the glaring injustices:

> In Grady County, Georgia, three Negro mothers, all with young children and no means of support, reported that the Welfare Department had refused in early July of 1966 even to consider their applications for Aid to the Families of Dependent Children. All were told that "seasonal employment was available in the fields until October and that no applications would be accepted until the fall."
>
> Another mother who had been receiving assistance since the preceding October had her benefits terminated in May. She was told that "full-time seasonal work" was available. Further, her 12-year-old twins "should work in the fields until October" when benefits might again be granted.
>
> In Grady County, only Negro women and their children are required to work in the fields during the growing season and denied benefits from May to October. Field work is not considered "suitable" for white women and children receiving benefits under Aid to Families of Dependent Children.

Southern poverty, however, is by no means confined to Negroes. Since the Civil War, severe poverty has characterized the large mass of the southern population, Negro and white, and has aggravated racial animosities. Uneducated poor whites have regarded the freed Negro as a threat to their already meager economic circumstances. Yet in every state except Louisiana, Mississippi, and South Carolina there are more white than Negro families (in absolute numbers, not percentages) with annual income under $2,000.

The Negative Income Tax, nationally and impartially administered, will not be a tool in the hands of machine politicians or white supremacists. It will meet the needs of poor people of all races, in every part of our country.

5. Efficiency

The United States has committed itself to spend substantial sums to raise the living standards of the poor. Agricultural price maintenance, public housing, and the War on Poverty represent only a few of the major programs in this area. We can either establish government bureaucracies to spend this money, or give it directly to the poor, letting each family allocate its share to shelter, clothing, food, or education according to its own needs and wants. The Ripon Society believes, in the Republican tradition, that individuals can usually make more efficient economic decisions than any government agency.

If a family renovates its home, it will try to get the best work for the lowest price simply as a matter of self-interest. A government agency building a housing project cannot achieve the same standards of personal inspection except at enormous cost.

Our present welfare system is itself riddled with paper work and consumes great amounts of valuable time in making decisions that would be automatic under a Negative Income Tax. Instead of counseling the poor, welfare workers have to police their conduct and scrutinize their assets.

Testified a woman caseworker from Harlem:

> The woman asked me for three sheets. I had to visit the home and inspect the bed, determine how many used the bed. Were they really torn? If I gave out sheets six months ago, why were they needed today? Go over the records and make sure the sheets didn't exceed the family clothing limit. Wouldn't two sheets be enough? Before I got the sheets I had dealt with the unit supervisor, the case supervisor, and the senior case supervisor.

The Negative Income Tax is a self-liquidating program. As the number of low-income families decrease, the payments automatically diminish, and there is no bureaucracy to look for new excuses to keep up the appropriations. The time of caseworkers and supervisors represents a valuable social resource which is presently being wasted in policing and paperwork. Freed from the responsibilities of handing out money, social workers could provide counseling services much needed by all parts of the society.

6. Adequacy

Even if the present welfare system were to correct its deficiencies on the above points, one overriding fault would remain: present programs do not make payments to many of our poorest citizens. The payments we do make are often so inadequate that they create only despair among the recipients. As the Report of the Advisory Council on Public Welfare noted:

> Only a fifth of the poor (7.5 million out of 34.1 million) are now being helped by federally-aided State public assistance programs. Furthermore, they are receiving payment far below the nationally determined poverty figure of $3,000 for a family of four, or $1,500 for an adult living alone.
>
> The national median payment, including vendor payments, for medical care, for an Old Age Assistance recipient was $77.55 a month, or $930.60 a year: for a needy child, $35.45 a month, or $425.40 a year; or for a family of four, $141.80 or $1,701.60 a year.
>
> The national average provides little more than half the amount admittedly required by a family for subsistence; in some low-income states, it is less than a quarter of that amount. The low public assistance payments contribute to the perpetuation of poverty and deprivation that extends into future generations.
>
> Most public assistance recipients are too old, blind, chronically ill, or severely disabled, or are mothers of small children, or are children too young to add substantially to their assistance payments even if this were allowed without deduction by state standards.

Even a small rise in income from bare subsistence improves the morale of the poor, releases enormous energies toward self-improvement and increases the chances that their children will break out of the poverty cycle. Under the Negative Income Tax every penny spent will go to the poor directly. We expect that this modest increase in standards of living together with the incentives described above will lead to much greater participation of the poor in the economic life of the country.

A large number of people not presently receiving public assistance payments will obtain benefits under the Negative Income Tax plan. Yet, only the most obtuse Social Darwinian could argue that hunger and privation do much to make the indigent a more productive part of society. When people sink into the despair of our poverty pockets, whipped by the lash of hunger, living in rat-infested tenements or tarpaper shanties, and seeing their children without shoes, the erosion of their morale does far more to sap their incentive to work than would the receipt of governmental assistance. Any program to encourage individual initiative must recognize that a certain minimal level of security is necessary for anyone to become a productive part of society—to acquire the skills or take the chances which enable him to become an economic and social asset. Present programs are inadequate in combatting poverty because they fail to provide security to all those who need it. The Negative Income Tax has the great merit of providing the element of stability that is essential if the poor are to participate in the economic life of the country.

III. ANSWERS FOR THE CRITICS

1. "Won't a man working full time for $3,500 a year resent someone else who is getting $2,000 for doing nothing?"

Since the Negative Income Tax Plan applies to everyone whose income falls below the standard, the $3,500 man will himself be getting some payment. If the hypothetical worker with the $3,500 really covets the status of his neighbor, he has the option of quitting his job; but he must accept a lower income, and consequently a lower standard of living. The incidence of resentment will actually be reduced by a Negative Income Tax. Today, because of administrative, regional, and racial inequalities, identical families receive unequal benefits.

2. "Won't many people just stop working?"

The question is suggested by the operation of present welfare programs, which provide no incentive to work. People work for the things they can buy with extra income.

As we have seen, the Negative Income Tax reinforces this positive incentive to work by enabling people to receive the fruits of their labor. We must realistically note that the choice for the poor is not always between honest work and starvation—crime offers an opportunity for an adequate income. The Negative Income Tax will provide many of these people with the margin they need to resist the temptation of a life of crime.

Certainly, a few people will choose not to work even at the very low standards of living provided by the Negative Income Tax ($750 a year for a single person according to the plan suggested below). But many citizens in fact can use this opportunity in ways that will benefit themselves and society: artists, writers and students would be given a chance to have their time to themselves if they were willing to accept very low incomes. In any case, we can always influence the number of people who will choose leisure by altering the tax rate.

3. "If we pay some people for not working at all, two very different ways of life will grow up in America, leading to class conflict."

This is a better description of the present situation than of the Negative Income Tax. The poor family in America has no hope of controlling its future. If it is on welfare, its income and expenditures are completely controlled by government administrators. If it is scratching out a living from day to day, it lives in great uncertainty and insecurity which discourages any plans for the future or for a better life for its children. The result is a growing separation of the affluent middle class from the poor not only in income, but especially in attitudes toward life. The poor cannot hope for the security and regularity of life which the middle classes cherish. Furthermore, the step from no income to adequate income becomes larger all the time, and this barrier is heightened by minimum wage laws and the disincentive features of welfare means tests. The child who grows up without adequate food, clothing, shelter, or books is already handicapped in his attempt to become a productive member of society.

The Negative Income Tax will alleviate the insecurity of the poor and allow people to plan ahead. It provides a smooth transition from not working to working, from poverty to affluence. The Ripon Society believes that, by extending these features of the middle class environment to the lives of the poor the Negative Income Tax will knit the society closer.

Those who have experienced middle class ways of life and rejected them are most likely to be the "drop outs" under this plan. For these people, the problem is not to provide incentives by threatening them with starvation, since they are often well able to earn good incomes, but to interest them again in the society.

4. "We already have too many enormous Federal programs interfering in the economy. We need more freedom from Federal control, not an extension of it."

The Negative Income Tax will shift decisions from the Federal government to individuals. By freeing local resources now devoted to economically burdensome welfare programs, the Negative Income Tax will enable the cities and states to devote their energies to education, the improvement of the environment, and the curtailment of crime, all predominantly local responsibilities which are being poorly met at the moment.

The use of objective criteria that is central to the Negative Income Tax system should insure against an accretion of power in the hands of federal bureaucrats. In fact, local initiative in devising structural approaches to reduce the incidence of poverty may be strengthened by the adoption of a Negative Income Tax system. Under the grant-in-aid approach which dominates much of the public assistance area today, state and local governments often have little room for policy initiative. Instead they find themselves forced to tailor their welfare policies to maximize the matching federal grants.

The Negative Income Tax system would not pressure state and local governments to follow any single path in providing for the welfare of their citizens. Assured that their citizens would have at least a subsistence level income, these governments would have more room for initiative and experiment in providing services which encourage their indigent citizens to become more constructive members of society.

The criticism of over-centralization is actually more valid for proposed alternatives to the Negative Income Tax. For instance, the suggestion that the government become the employer of last resort would shift control of enormous resources into the public sector increasing even further the sphere of federal decision making in the economy.

5. "Won't the money be spent on liquor, drugs and fancy clothes?"

Most of it will go into housing improvements, into schoolbooks and home study space, into privacy and food and shoes. This is the way most people of all incomes spend their money. As with the earned incomes of the middle class, some of this money will be used for drugs and liquor and will reduce pressures on addicts and alcoholics to support their habits through crime. If making several hundred drug addicts more comfortable is the price of giving shoes to millions of schoolchildren, why not pay it?

6. "Isn't it 'wrong' to pay people for not working?"

The deepest-felt objection to the adoption of a Negative Income Tax plan or any proposal for insuring a minimum floor under all family income is essentially an emotional one. The idea of "paying someone for doing nothing" runs against the Puritan Ethic. In fact, the notion of "the undeserving poor" leads many Americans to associate poverty with shiftlessness, laziness, and other character debilities. A somewhat more sophisticated version of this attitude recognizes that poor children are not to be blamed for their plight but regards their parents as undeserving of sympathy. Consequently many will advocate large expenditures to educate the children of the poor but will oppose suggestions that these families be given some form of income supplement.

This view ignores the fact that poverty in America is to a large extent an inherited malady. The poor adults of today, more often than not, were the children of the poor of a generation ago. Growing up in an environment which discouraged personal advancement, most of our poor either left school early or merely went through the motions while attending school. Lacking necessary job skills, they have become accustomed to failure. Their despair in finding satisfactory employment has been compounded by the frustration born of economic deprivation.

The effects of this despair upon the family life of our poor have been devastating. Daniel Moynihan has documented the critical deterioration of the Negro family in his controversial report, The Negro Family: The Case for National Action. The family instability among the urban Negro poor has seriously complicated our task of providing adequate education and citizenship training in the ghetto. Still the major socializing institution in our society, the family, is the source of most of a child's values. The child who grows up in a broken home in an urban ghetto today is likely to receive little more than a sense of helplessness from his family situation. Though living in a poverty-stricken environment, he is exposed to the blandishments of advertisements urging him to consume. The poor youth in the city, lacking the means to share in the affluent life to which he is exposed, may turn sullen and silent or burst out in antisocial displays of anger and violence.

Society must accept the responsibility of assisting those whose major reason for not finding a job is the accident of their birth and upbringing.

IV. A WORKABLE PLAN

The advantages of the Negative Income Tax are best demonstrated in the context of a concrete plan. The one presented below does not purport to meet all administrative, technical or legal problems, but it does provide a framework for implementing the concept.

1. Cost

For purposes of discussion we use the following table for computing the standard income allowance:

Table 1

For each adult	$1,500
For the first child	1,500
For the second child	1,000
For the third child	600
For the fourth child	400
For other children	0
Limit for any family	6,000

These levels represent a reasonable upper limit to the standard income allowance. A family of four, two adults and two children, has a standard income of $5,500.

Our plan includes a "tax rate" of 50 percent. This means that the family of four would receive $2,750 if it had no outside income. A single adult would receive $750. The incentive to supplement these minimums will be substantial, since a 50 percent tax rate means a family keeps half of anything it earns. Table 2 indicates the relationship between earnings and total income for a family of four.

Table 2

Earned income	Deficit from "standard"	Negative income tax	Total income
0	$5,500	$2,750	$2,750
$500	5,000	2,500	3,000
$1,000	4,500	2,250	3,250
$1,500	4,000	2,000	3,500
$2,000	3,500	1,750	3,750
$2,500	3,000	1,500	4,000
$3,000	2,500	1,250	4,250
$3,500	2,000	1,000	4,500
$4,000	1,500	750	4,750
$4,500	1,000	500	5,000
$5,000	500	250	5,250
$5,500	0	0	5,500

Note: Total income for a family of 4 with 2 children; "standard income" equals $5,500

The difference for a family between its present income and the standard is called the "deficit" for that family. In 1965 the sum of these deficits for American families was $20 billion. This figure includes welfare payments as income. Without welfare the deficit is $25 billion. In addition the Federal Government collected somewhat less than $1 billion in income taxes from families who will be eligible for Negative Income Tax under our plan.

From these figures it is easy to calculate the cost of any proposed tax rate. For example, if welfare payments continue at present levels and a 50 percent tax rate is in effect, the total cost to the Treasury will be $11 billion ($10 billion representing 50 percent of the total deficit plus

$1 billion representing the loss of tax revenues). Of this $10 billion in direct payments about 80 percent will go to families with children. If welfare payments are not included as income but are counted as part payment of the Negative Income Tax, the total cost will be $13.5 billion (half of $25 billion plus $1 billion in lost revenue). We expect, of course, that much federally sponsored welfare assistance will be phased out as the Negative Income Tax comes into operation.

2. Legal Details

A. *Definition of income.*—Certain receipts not counted as income for tax purposes must be included as income in claiming a Negative Tax payment. Scholarships, gifts, transfers between members of a family, alimony, interest on tax-free securities and realized capital gains are the most important items in this category.

Welfare payments which can be continued at the beginning of the Negative Income Tax should not be counted as income for Negative Income Tax purposes, but as partial payment of Negative Income taxes, if they are financed by the Federal government. State welfare payments should not be counted as income, or as partial payment, to avoid discouraging states from providing welfare for special hardship cases. Programs designed by the Federal government to help specifically emotionally and physically disabled persons should also be supplemental to the Negative Income Tax.

B. *Deductions.*—Deductions from income must be severely limited for negative tax recipients. Deductions of business expenses and in fact all employment-related expenses will increase incentives to employment. In the absence of comprehensive medical insurance coverage some allowance is necessary for unusually large medical expenses. (If tuition to college were granted as a deduction, the Negative Income Tax could provide an automatic scholarship for everyone who has the will and ability to go to college. This, of course, would raise the cost substantially.)

C. *Positive tax liability.*—Those eligible for Negative Income Tax payments will not be liable for ordinary income taxes. Under the present exemption and deduction system this will result in a fall in after-tax income if a family's income rises above the standard in some cases. This effect may not be too serious, but a simple way to eliminate it is to increase exemptions and standard deductions in the regular income tax to conform to the standards of the Negative Income Tax and raise lower bracket rates slightly to keep total lower-bracket tax payments constant. This method eliminates the disincentive to move above the standard income and does not change the tax burden on families just above the standard.

D. *Eligibility.*—The basic principle of the Negative Income Tax is its universal applicability. Since our Social Security system is designed to maintain adequate income for older citizens, we recommend that persons over 65 be eligible for Negative Income Tax payments only if they are not adequately covered by Social Security. The same reasoning applies to recipients of veterans' pensions and similar governmental transfers.

Otherwise, every American who is either over 18 or the head of a family should be eligible for Negative Income Tax. There will be no incentives for rich families to live apart as a way of increasing total family income since intra-family transfers will be counted as income. It may be desirable to allow families that wish to keep their children dependent to offer to substitute their support for Negative Income Tax until the child reaches 21.

The Negative Income Tax is not intended to supplement the incomes of wealthy people who have substantial assets but low incomes. Eligibility should be denied to families or individuals who own more than, for example, $3,000 in liquid assets, or $10,000 in total assets not counting owner-occupied homes. These limits may also be tied to the standard income formulas. They will prevent the worst cases of abuse of the Negative Income Tax.

F. *Size of income.*—Certain businessmen with substantial borrowing power sometimes have negative incomes in certain years. To prevent open-ended claims on the Treasury, the minimum reportable income for Negative Income Tax purposes should be zero. The small size of the payments even at zero income will discourage most people from manipulating the timing of their incomes to take advantage of the Negative Tax.

G. *Installment debt.*—Installment debt payments cannot be allowed to eat up the negative tax. Legal limits may be set to the percentage of total income a Negative Tax recipient may be forced to pay as interest or principal on debt. This will provide a kind of semi-bankruptcy protection for the recipient.

3. Administration

One of the fundamental simplicities of the Negative Income Tax is the ease with which the program can be administered without establishing an additional welfare bureaucracy. An individual or family which expects its income to fall below the standard in a future period will file for Negative Income Tax payments from the Internal Revenue Service. These payments will be made monthly. At the end of each year, Negative Tax recipients will file returns showing their actual income in the year. Any discrepancy between the actual Negative Tax payments and what a family was entitled to can be made up by a lump sum refund or tax payment or, if the payment is large, by a tax payment spread over several months.

To minimize the variation in tax payments employed, Negative Tax recipients should have tax withheld at the source like other employees. Withholding, together with assistance in filling out forms and modern data-processing, will simplify the administrative problems in adjusting tax payments to income.

4. Fraud

Relatively well-off people who by some legal device can meet the letter of the requirements may abuse the Negative Tax. The incentive for this is small because the payments are small. The chances of its happening can be reduced by making the definition of "income" for Negative Tax purposes as broad as possible.

Another difficulty will be misreporting of income by poor people to avoid the 50 percent marginal reduction in Negative Tax payments for each dollar they earn. The most effective deterrent against this will be the actual requirement of filing a return, since it takes considerable ingenuity to fake a consistent series of fraudulent tax returns. In exchange for the Negative Tax privilege, people may also be required to provide information on returns, such as reports of purchases of durable goods, which will facilitate detection of fraud by computers. The most important point is that the Negative Income Tax criteria are simple and equitable, while present welfare regulations involve a byzantine code of behavior. The combination of deterrence and respect for a good law will help to reduce fraud to a low level.

5. Gradual Enactment

The Negative Income Tax represents a substantial though not revolutionary change in our economic environment. For this reason it is desirable to watch the effects of it develop slowly and to gain experience in the problems it raises one by one. The Negative Income Tax should be introduced gradually by starting with a low tax rate, say 10 percent, and raising it year by year to the target of 50 percent. The first year this will cost about $3 billion (10 percent of $20 billion plus $1 billion in lost revenues) which itself is a modest but important contribution to the welfare of the poor. If, as the tax rate rises, significant bad effects become apparent, the program can be halted or reversed smoothly.

The Ripon Society notes that the Negative Income Tax with a 10 percent tax rate can be instituted immediately with provision for an automatic rise of 10 percent in the tax rate each succeeding year. If the end of the war in Vietnam provides an opportunity, we can raise the rate by more than 10 percent in that year. This is a powerful anti-recession weapon, especially since Negative Income Tax payments go to those whose propensity to consume is very high.

Each year until the fifth after the adoption of the program, it will cost about $2 billion more. The natural growth of tax revenues is about $5 billion a year, so that the Negative Income Tax can be initiated easily without any increase in positive tax rates. This is true even if the war in Vietnam continues.

V. THE POLITICAL CHALLENGE

We cannot tolerate the low incomes of the poor. Misery affronts our consciences. Ugliness afflicts neighborhoods drained of money and packed with people. Insecurity and discrimination drive their victims to a guerrilla action against the majority who have made it or have it made.

"Massive frontal attacks" on peripheral issues like schooling for four-years-olds do not raise incomes or make anyone more secure. The government's job corps programs, substitutes for on-the-job training, have helped a very few at enormous cost and have not changed the economic environment of the mass.

Direct transfer programs like welfare raise incomes but destroy incentives and erode self-reliance. The poor pay for the security of subsistence incomes by giving up their right to buy what they want or to earn more by their personal effort. Welfare threatens to become a cheap form of institutionalization for people with a problem: like many institutions, it tends to strengthen the problem rather than the person.

If we want to see an improvement in housing and a reduction in crime, we must put more money into poor neighborhoods and regions. If we want to see that money spent efficiently to help people, we can do no better than to let them spend it themselves.

Eighteen years ago Senator Robert Taft said:

> I believe that the American people feel that with the high production of which we are now capable, there is enough left over to prevent extreme hard-subsistence, education, medical care and housing, to give to all a minimum standard of decent living, and to all children a fair opportunity to get a start in life.

The Ripon Society believes that the adoption of the Negative Income Tax will prove the most viable means of implementing this concept; it will be a great Republican initiative comparable to the Homestead Act and the Thirteenth, Fourteenth, and Fifteenth Amendments. No other program to fight poverty can also strengthen free markets and reduce Federal intervention in the economy.

In five years our economy will be producing a thousand billion dollars worth of goods each year. We propose to give one percent to those who so far have been left out. The richest nation in history should do no less.

INCOME MAINTENANCE: THE NATIONAL URBAN LEAGUE POSITION

We believe the time has come to launch a concerted national effort to deal, once and for all, with the question of poverty in this country.

To continue to allow 23 million people to remain below the official poverty level is a terrible indictment of the nation and mocks the very principles upon which this country was founded.

To these 23 million people we pledge our commitment to the development of a national system of income maintenance which will insure that every American has access to the goods and services necessary to sustaining life at an adequate level.

Toward this end, the National Urban League is proposing major overhaul of the country's entire income maintenance system. Although piecemeal changes and improvements have been made, and can be made, there is a clear need for reform of the entire system.

The National Urban League's Board of Trustees has adopted a basic position on income maintenance. Of all the various alternatives to the present system, we believe that the one which best fulfills the goals of the nation is the universal refundable credit income tax, detailed in this paper.

We believe that placing a floor under all incomes by means of a universal refundable credit income tax combined with a full employment policy and national health insurance is the best approach to preventing and eradicating poverty.

We, therefore, offer this paper on the universal refundable credit income tax to the nation's leaders and call on individuals, groups and organizations to join us in developing an informed constituency which will insist that the present moment will mark the time when the nation willed that 23 million of its citizens would no longer live in poverty.

DONALD McGANNON, *President*
National Urban League

VERNON E. JORDAN, JR., *Executive Director*
National Urban League

July 15, 1975

The time is long overdue for an extensive reform of the income maintenance system in this country. Twenty-three million people in the United States today live in families with pre-tax incomes below the poverty level.[1] From this fact alone, the need for a national system of income maintenance becomes clear. At present, there is no unified system to insure that every American has access to a basic level of necessary goods and services. What we do have is a vast array of programs which are:

Poorly coordinated with one another,

Inequitable in affording better coverage and higher benefits for some groups and geographic areas than for others in the same economic circumstances,

Socially and politically divisive in that they segregate and stigmatize certain groups of recipients,

Tacitly counter-productive to work incentives and family stability,

Complex, inefficient, and costly in their administration.

The form that the system should take is a function of the goals it is to achieve. In formulating these goals the following issues must be examined:

Who is poor in the U.S.A. and why they are poor.

How the present array of programs helps the low income population;

a. who receives benefits and who does not

b. the extent to which poverty is alleviated

c. the defects of the present system.

WHO IS POOR AND WHY THEY ARE POOR

In 1973 there were 23 million people living in families with incomes below the official poverty level of $4,540 for 4 people. This represents 11% of the total population. The incidence of poverty is nearly four times as great among black Americans: 31% of the black population and 8% of the white population were poor in 1973. Above the poverty level, median black family income of $7,270 was only 58% of median white family income ($12,600).

Approximately 38% of the poor are children and 14% of the poor live in families headed by a person over 65. Although children, the aged, and female headed families are heavily represented in the poverty population, the incidence of poverty is by no means limited to these groups. Over 50% of the poor are individuals in families with children where the family head is neither aged nor disabled and the majority of these families have two parents present. In 1970 a surprising 900,000 male family heads worked full time for 52 weeks and earned less than the poverty level of income.

A longitudinal study of 5000 representative U.S. families conducted by the University of Michigan Survey Research Center revealed the following about who is poor in America and why they are poor:

That the poor are not an isolated unchanging group but a highly variable population with large numbers of families moving in and out of poverty each year.

It is estimated that from 1967 to 1972 only 20-30% of the total poverty population (23 million persons) remained poor for all six years. But, a total of 50 million different people were below the poverty level for at least one of these years and as many as 85 million people were eligible, at some point, for at least one form of federal aid to the poor.

That the total incidence of poverty fell only slightly during these years.

It went from 12.7% to 10.6% of the population. This indicates that the number of people entering poverty each year was roughly equal to the number leaving.

That the major reasons for a family to enter or leave poverty were demographic.

These are reasons such as the birth of a child, marriage, separation, divorce, death, illness, or retirement of the family head.

The picture that emerges from all this is that for a sizable percentage of the population (around 17% of all households)[7] income is highly unstable and fluctuates above and below the poverty line from year to year. This income instability is greatest among female headed families and least frequent among families with an aged head.

THE PRESENT PROGRAMS—WHOM DO THEY HELP

At the present time there are more than 100 federally funded programs that transfer income, both cash and in kind (such as food stamps, medical services, and housing) to individuals with low (pre-transfer) incomes. These programs will pay out an estimated $130 billion in fiscal 1975 of which about 4/5ths will go for social insurance benefits and about 1/5th for public assistance, food stamps, housing, and health services.[8]

It is difficult to establish the actual number of distinct individuals who receive benefits because a large number of people participate in several of these programs at once. This fact of multiple program participation—gives rise to one of the gravest defects in the present system of income maintenance and will be discussed later at length. In fiscal 1972, for example, a gross total of 119 million persons received benefits under the 26 major federally funded programs. It is estimated, however, that there were only about 60 million distinct individuals who received aid.[9] (Refer to page 18 for a list of the major federal and state programs, the total numbers of recipients for 1973, and the total benefits paid out under each of them.)

In addition to cash and in-kind assistance, the Federal government also transfers in effect billions of dollars to individuals through the use of income tax exemptions and deductions. Although this form of government aid receives less attention than Social Security or food stamps, and few data are available on how much money is involved and who benefits, the exemption of income from taxation increases disposable income just as surely as the giving of a relief check.

These tax transfers are not necessarily targeted on the poor but on such economically diverse groups as homeowners or the parents of students. For example, in fiscal 1971, the income tax deductions on the mortgage interest payments of homeowners in this country totalled $2.8 billion and cost the Federal government in lost revenue more than all the housing subsidy programs for the poor.[10]

HOW EFFECTIVE ARE THE PROGRAMS

The Michigan Survey Research Center data indicate that in 1971, 80% of all the families with pre-transfer incomes below the poverty level received some benefits from one of the federal or state programs and 43% were raised above the poverty level by this aid, 57% of poor families remained poor after benefits were transferred; 20% received no benefits; and 37% received insufficient benefits.

According to this study, certain types of families fare better than others. This is because many of the present programs are categorical—providing assistance only to certain groups in the population. Of families with incomes below the poverty level, those with an aged head fared best with only 3% receiving no benefits of any kind; 11% of poor families with a disabled head received no benefits; 17% of poor female headed families with children and 49% of poor male headed families with children received no benefits; 57% of poor families with no children and non-aged, non-disabled heads received no benefits whatsoever during the period of the Michigan study which ended in 1971.[11]

Overall, it was estimated that the "social insurance" programs (OASDI and UIB) were the most effective in alleviating poverty. Benefits from these programs raised 32% of the total of poor families above the poverty line while public assistance and food stamps brought only 16% of poor families over the line.

SOME RECENT PROGRAM CHANGES

Since 1971 the picture has improved, somewhat, as the result of changes in three of the major programs. The first is the institution of the federal Supplemental Security Income program (in January 1974) which is, in effect, a nation-wide negative income tax for the aged, the blind, and the disabled. This program, which is run by the Social Security Administration, provides a basic guarantee of $2,500 per year for a couple, will pay out approximately three billions in benefits in 1974,[12] and should virtually insure that all blind, aged, and disabled Americans who participate are brought up at least to this level of income.

The second major change which has taken place is the enormous expansion of the federal food stamps program which provides, as of January 1974, a basic guarantee of food stamps valued at $1,704 for a family of 4 persons and will pay out approximately five billion dollars in food stamps in 1974 to an estimated 13.1 million persons.[13] Unlike AFDC and SSI, this program provides its benefits in the form of vouchers or food stamps (in kind) rather than in cash and there are serious shortcomings associated with this form of assistance. But this program has reached massive proportions (it is estimated that 39 million Americans are currently eligible for some benefits)[14] and, what is more important, it is the first nation-wide program that provides benefits to the working poor and to single individuals, to two-parent families, and to childless couples with low incomes. In most states these groups had not been eligible for benefits under any of the other categorical programs.

The third change which occurred somewhat earlier but which has had a significant impact is the liberalization, 1967, of the federal Aid to Families with Dependent Children program. This permitted recipients (single parent families with minor children) to work and retain a certain percentage of earned income while continuing to receive benefits. Previously the program had applied what amounted to a 100% tax on the earnings of participants.

In addition to these major changes, benefits under the Old Age, Survivors, and Disability Insurance program have been increased, its coverage has been extended, and a cost-of-living adjustment has been tied in to benefit levels as well. Today there are 30 million Americans receiving benefits under this program

6

including 2 million disabled persons under 65, 5 million children, and nearly one million widows and mothers.[15] (Refer to page 19.)

DEFICIENCES IN THE CURRENT PROGRAMS

The expansion, liberalization, and federalization of these major programs will clearly make inroads into the poverty income gap currently estimated at 10 billion dollars in this country. It has not eliminated the serious shortcomings which are inherent in the design of the programs themselves. In fact, because more money is now being spent and more people participating in these programs, the flaws have become all the more disastrous and the need for reform all the more pressing.

Many of the defects of the present system are related to the way the programs were designed and will persist as long as these features remain.

I. *The first major defect arises from the fact that the majority of programs provide benefits only to specified categories of the population.*

This categorical feature of such programs as AFDC and SSI is in effect a means of rationing limited funds among all those in need and arises in part from a desire to restrict benefits to those most in need or to those groups in the low income population deemed most worthy of help, the blind the aged, etc. Some of the results of making income maintenance programs categorical have been:

stigma

Certain groups in the population are segregated and stigmatized. Aid is seen as a privilege rather than a right. There are strong disincentives to apply for benefits under these programs and resentment against recipients runs high in the general population. The programs are not popular politically.

complex eligibility

Proving one's eligibility for these programs is a complicated process and it must be demonstrated frequently and rigorously. The complexity of eligibility criteria requires high administrative costs and allows for a wide margin of administrative discretion.

inequity

Individuals and families in similar economic circumstances do not receive equal treatment. In many states the working poor are not covered by any of the cash programs no matter how low their earnings. In addition, some families participate in several programs and receive a fairly high level of benefits, others, none. The AFDC program restricts benefits to families with one parent and dependent children (and in some States, to families where both parents are unemployed), while cash benefits are unavailable to two-parent families and to the working poor and their children.

II. *A second major defect in the design of the present programs is the fact that many are administered and funded by federal, state, and local governments jointly.*

This greatly increases the costs and complexity of administering these programs. It also permits wide variations in eligibility criteria and in benefit levels from state to state and from city to city. The range in benefits at the present time under the AFDC program goes from $82.71 which is the average monthly payment per recipient in New York to $14.40 in Mississippi.[16]

III. *A third major defect in the design of the present programs is the fact that many are work conditioned.*

What this means is that in order to receive benefits, recipients must be willing to work or to submit to job training. While it is clear that a program to provide funds for able-bodied, fully employable, but leisure loving individuals would be unfeasible politically, to say the least, the vast majority of the low income population is in no such position. The work requirements built into the present system and to many of the new programs which are being proposed are firmly rooted in the beliefs that:

- there are jobs available
- the low income population has only a weak attachment to the work ethic and that any program which provides income maintenance must also buttress this attachment
- a sizable proportion of the low income population are fully employable or can easily be made so

But, in fact, there is considerable evidence that none of these beliefs is warranted.

scarcity of jobs

The unemployment rate for the labor force as a whole, nationally, is currently around 8.7%, but the rate in many urban areas is substantially higher (10.9% in NYC as of 5/7/75).[17]

Clearly jobs are not available for everyone, and the reported statistics greatly underestimate the true scarcity of jobs for the low income population. In 1967, for example, when the overall U.S. unemployment rate stood at only 3.7% it was estimated by the Bureau of Labor Statistics to run as high as 10% in low income areas. In addition to the unemployed, a high proportion of the low income population is subemployed, working at very low wage jobs ($4,000 or less per year for the head of a family of four). In 1967 when the economy was characterized by a far tighter labor market than that which exists today, the BLS estimated the level of subemployment in urban poverty areas to be as high as 24-47%.[18] In early 1971, the Census Bureau found subemployment at an average of 30.5% in 60 major U.S. poverty areas with 61.2% of the employed work force receiving less than the official BLS "lower living standard" of wages.

There is considerable evidence that the low income population is effectively restricted to unstable, low wage, dead end jobs. During the period from 1962 to 1969 when economic growth created a tight labor market and unemployment rates fell to a record low, it is estimated that there was a net increase of 10.5 million jobs for men. However, the top 2/3rds of the male labor force gained 13.4 million jobs and the bottom third lost more than 3 million.[19] So, even during periods of growth and prosperity, the poor lost out. In 1974, when real GNP was actually declining and unemployment was higher than it had been in 26 years, it was obvious that the economy could not and did not generate

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enough jobs and decent wages for the labor force as whole and the scarcity was all the more acute among the low skill, low income population.

work incentives

The second assumption, that the low income population has only a weak attachment to the labor force or little motivation to work when aid is available, is also unfounded. According to the Census Bureau in 1971 only 5% of the low income population of working age did not work in that year for reasons other than illness, school, or family responsibilities; 75% of all poor male family heads worked at some point during that year and 57% of those worked full-time all year; 41% of the women heading poor families worked and 18% of them, full time, all year.[20]

In the recent New Jersey Graduated Work Incentive Experiment conducted by the Office of Economic Opportunity, cash benefits were made available to groups of low-income, two parent families without a work requirement in an effort to determine whether or not the availability of such aid would have an effect on their work effort. The evidence indicates that with reasonably generous levels of benefits and benefit reduction rates no higher than 70%, there is no significant change in work patterns among family heads.[21] The experiment also pointed out that the benefit reduction rate (or marginal tax rate) has a significant impact on work effort. The benefit reduction rate is that rate at which aid is withdrawn as earnings increase. If the rate is high (over 70%) it means that the person receiving aid has very little incentive to increase the earnings because the person keeps only a small fraction of each extra dollar earned. This will be discussed in detail later.

WORK PROGRAMS

It is clear from the failure of "workfare" programs such as the WIN plan and the Talmadge Amendment that efforts to combine income maintenance and manpower training are complex and costly to administer and have a very low rate of success. It is estimated that the cost of one successful job placement under the WIN program was $5000 and the success rate here was approximately 1%.[22]

As the Michigan study points out, large numbers of different people enter and leave the poverty population each year and the major reason for leaving poverty is not employment or job training but demographic changes. Manpower training, day care for the children of working mothers, and public service sector jobs are all needed but there is no basis whatever for linking these to the supply of cash aid for families with inadequate incomes. The problems of getting the U.S. economy to generate enough jobs and of equipping all Americans with a level of education and skill sufficient to compete for the jobs and the geographic proximity or mobility to get to jobs are exceedingly complex. It is both ineffectual and unjust to penalize that sector of the low-income population which is unemployed or subemployed on the pretext that the solution to these problems is at hand.

IV. *A fourth major problem with the present system is the multiplicity of poorly coordinated programs and the serious work disincentives that result.*

There are many different programs at present on the federal, state, and local levels dispensing benefits in cash and in kind. There is considerable overlap between them. A staff study done in 1973 by the Joint Economic Committee found that between 50-77% of sample households in six major poverty areas received benefits under at least one program. Of those, about 60-75% received benefits from more than one program; and 10-25% received benefits under 5 or more different programs (public assistance, veterans assistance, OASDI, food stamps, public housing, or childcare).[23] The fact of multiple program participation does not mean that these families were cheating nor that they received especially high amounts of aid. This study found, in fact, that among households receiving five or more benefits, between 8% and 35% remained below the poverty level of income even after receipt of aid (both cash and in kind).[24]

Most of these programs are income tested which means that benefits are withdrawn as the recipient's income rises. What has become clear is that the rate at which benefits are withdrawn and the income level at which they are cut off entirely has a crucial impact on work incentives. The problem is compounded by the fact of multiple program participation.

For example, if a family is receiving assistance in the form of cash, food stamps, and low cost public housing, and if each of these programs reduces the amount the family receives as its income from employment rises, the family head is in the position of having very little incentive to increase the amount he/she earns. For each extra dollar earned in wages, 70, 80, 90% (and in some cases over 100%) of it will be "taxed" in the form of lost cash or in-kind benefits for which one is now eligible.

The reason for making a program income conditioned is that it targets limited funds on those with the lowest incomes. In itself, income conditioning is therefore not a bad thing for any single program. It is certainly possible to set the benefit withdrawal rate low enough so that work incentives are not impaired. According to the evidence from the OEO New Jersey experiment, this would be at 70% or below for prime age male family heads. But each of the present programs has its own benefit reduction rate (for AFDC it is around 67%, for food stamps around 30%, and for housing assistance it is around 25%),[25] and when a family participates in several programs at once, these rates must be added together in order to get the true cumulative marginal tax rate at which each dollar of added income is taxed. With the great proliferation of programs offering in-kind benefits to families with heads who work or might work, and with the large number of families participating in 3, 4 or 5 programs at once, the work disincentives have become quite serious.

Not only does this fact of multiple program participation and poor coordination give rise to serious work disincentives, it is also extremely inequitable. It results in great disparity between the amounts of aid available to families at similar income levels depending on where they live and which programs they apply for—their social and demographic characteristics rather than their need.

THE GOALS AND CHARACTERISTICS OF A NEW INCOME MAINTENANCE SYSTEM

In the course of examining the defects of the present system we have tacitly posed some of the goals or principal characteristics that we believe should figure prominently in the design of a new system.

I. The system should be adequate, equitable and universal.

Benefits should be available by right to all Americans whose income falls below the basic level at which a decent life can be lived. There should be no categorical division of the low income population into different programs with different coverage and different levels of benefits; there should be no dichotomy between aid for the poor (welfare) and aid for others (tax preferences). With the realization that as many as 23 million people are currently eligible for at least one form of federal benefit for the poor other than food stamps and as many as 37 million eligible for food stamps alone, the time has come to recognize that a majority of Americans at some point in their lives will be eligible to participate in the system.

II. The system should be federally administered and funded.

This will insure that all Americans, no matter where they live, will have access to an equal level of benefits (relative to need) and are subject to the same criteria of eligibility. It will eliminate the wide margin of local administrative discretion which exists under several of the current programs and which can be used to demean and harass recipients and to select inequitably among the needy. Federalization of funding for income maintenance programs has greatly increased with the advent of SSI and the expansion of food stamps. As federal income taxes are less regressive than state and local taxes, there is an added incentive for federalizing.

III. The benefits should not be work conditioned.

This will cause political controversy, but the evidence, as examined earlier, clearly suggests that the poor are more discouraged from work by soaring unemployment rates and the high cumulative marginal tax rates built into the current mix of programs than they would likely be by a universal program with low marginal tax rates and no work requirement.

IV. Benefits should be cash rather than in kind.

The proliferation of in-kind programs has contributed significantly to the inequities and inefficiency of the present system. In 1972, for example, 40% of the $24.6 billion spent on income-tested programs went for in-kind benefits.[26] Cash is the most efficient way to transfer income for two reasons: administrative and distributional costs are lower and the recipient is permitted a full range of options and can use the benefits in the way which most improves his/her welfare. When it comes to goods such as food, clothing, transportation, and housing, which the market in this economy supplies quite well to those with the resources to command them, it is demeaning and inefficient to have a government agency determine the types and quantities that a low income family ought to consume. At least part of the reason that fully 2/3rds of those now eligible for food stamps have elected not to apply for them[27] may well be the demeaning and restrictive form of the benefit.

For other goods and services such as medical care, which are not in ample supply, especially in low income areas, there is some justification for the use of vouchers, or direct supply by the government.

V. *The goal of the new program should be income maintenance.*

It should be designed to operate within the context of a two part national system. The two parts would be: income security programs (OASDI and UIB), and an income maintenance program such as we are about to propose. Since this paper is concerned chiefly with the design of an income maintenance program no attempt is made here to evaluate possible future modification or expansion of the present income security programs (OASDI and UIB). Our proposal is made with the intention that these programs will remain in operation and will continue to play the role of providing income security.

THE PROPOSAL

Of all the various alternatives to the present system of income maintenance, the one which best fulfills our stated goals and characteristics is the universal refundable credit income tax. (This shall be referred to hereafter as the CIT).

It should be understood at the outset that this plan does not provide an easy or perfect solution to the problems of designing a system that is equitable, adequate, efficient and politically acceptable to the American people. In fact, each of these objectives pulls in a different direction. What follows is a broad outline of the kind of program we would like to see implemented.

I. *What is the credit income tax?*

The credit income tax has many variations but in the form proposed here it is a system under which each person in the country receives a basic yearly grant (or tax credit) from the government. All income other than this grant is taxed. If a person has no income at all, he/she keeps the full grant and pays no taxes. If a person has income of any kind (other than the grant) he/she must pay taxes. If the income is low, the amount to be paid in taxes will be less than the grant, the person will keep the difference and receive, in effect, a net transfer from the government. If a person's income is in the middle range, what is paid in taxes will be quite close to the amount of the grant and he/she will break even (as though no taxes were paid and no transfer received). If a person's income is high, the amount to be paid in taxes will be larger than the grant received and in effect the person will pay out the difference in positive taxes.

The important point is that the system is universal everyone files a tax return, everyone gets a tax credit and everyone with any income pays taxes. There would be no means test, no work conditioning and no explicit eligibility criteria. Implicitly, of course, no one would receive a net transfer from the government unless the taxes on the person's income from all sources were lower than the tax credit.

Benefits under this program would be paid as a matter of right rather than privilege and in a way that did not segregate and stigmatize the poor. The vital point about the CIT is that it involves a merger of the welfare system and the tax system. The plan would be administered by the Bureau of Internal Revenue as an extension of the positive tax system. In most of the versions which have been proposed, the CIT is linked with extensive tax reform. Table I shows how this plan might work, but the figures on Table I are purely illustrative. It is not intended to spell out the specific form of the program or the levels at which the primary tax rate and tax credit should be set. First, because it is our belief that the institution of a universal refundable credit income tax at any of the proposed levels would represent a considerable improvement over the present programs. Secondly, because choosing specific tax and credit levels and specific tax reforms is distinctly less important than establishing which of them is politically feasible. This cannot be assessed here. The examples on Table I are given in order to demonstrate how this type of plan works. Each individual gets a tax credit. Each individual files a tax return. All income other than the credit is taxed (possibly at its source) at the primary tax rate. The actual taxes a person pays to the government are the difference between the tax credit and the tax liability.

Table I

How the CIT Works

For A Single Individual

	Income	*Credit*	*Primary Tax Rate*	*Tax Liability*	*Tax*	*Net*
Plan (1)	$4000	$1500	30%	$1200	+300	$4300
Plan (2)	$4000	$1000	30%	$1200	-200	$3800
Plan (3)	$4000	$1500	40%	$1600	+100	$4100
Plan (4)	$4000	$1000	40%	$1600	-600	$3400

For A Two Person Family
Where One Person Has
Income - $4000 and One
Has Income -- 0

	Income	*Credit*	*Primary Tax Rate*	*Tax Liability*	*Tax*	*Net*
Plan (1)	$4000	$1500 per Person $3000	30%	$1200	+1800	$5800
Plan (2)	$4000	$1000 per person · $2000	40%	$1200	+ 800	$4800
Plan (3)	$4000	$3000	30%	$1600	+1400	$5400
Plan (4)	$4000	$2000	40%	$1600	+ 400	$4400

For the individual on Table I, the tax liability is income ($4,000) times the primary tax rate. If the tax rate is 30% the tax liability is $1,200. The actual taxes are a tax credit, (under plan (2) this is $1,000) minus a tax liability of $1,200. This is –$200. The government gets $200 in taxes, under plan (2). When the primary tax rate changes or the size of the tax credit changes, the net amount that the individual is left with changes as well, from $3,400 under plan (4) to $4,300 under plan (1). This is shown also for a two person family.

What should be made clear is that a CIT has three critical determinants: (1) the level of the primary tax rate, (2) the amount of the individual tax credit and who gets it and (3) the size of the tax base (the extent to which the present system of exemptions and preferences is reformed). These three will set the cost of the plan, the extent and direction of income redistribution and the adequacy, universality and equity of the income guarantee.

II. *The tax rate and tax reform.*

A tax system that levies proportionately higher taxes as income rises is called progressive. Essentially, such a system redistributes income by reducing the share of total income that the rich get and increasing the share that the poor receive. The aim of the federal system at the present time is for income to be tax progressively and indeed the tax laws call for successively higher proportions of income to be paid in taxes as income rises. In spite of this intention however, various studies have revealed that at all income levels, high and low, taxes actually paid are roughly proportional to income. What this means is that a person with $8,000 per year and a person with $100,000 are both effectively taxed at the same rate (about 33%). The reason for this is that the present system of deductions, preferences and exemptions severely distorts the aim of the progressive income tax. Large portions of income are exempt from taxation.

In addition to this, under the present system, the $750 per capita exemption and the $1,300-$2,000 standard deduction give rise to a regressive system of implicit grants to all taxpayers. For the person with an income of $3,000, taxes are reduced by $287 per year (in effect, a $287 tax credit). For the person with an income in the 50% tax bracket, these exemptions and deductions reduce his taxes by $1,375. For the person in the 70% tax bracket, taxes are reduced by $1,925 (in effect a $1,925 yearly grant from the government). The exemptions and deductions are worth more as income rises and the only people not eligible for these grants are those whose need is greatest, those with no income.[28]

Under the CIT the present tax system would be altered in two ways: (1) this inequitable system of personal tax exemptions would be eliminated, the tax credit would replace the personal exemption and it would also be extended to those with no income, and (2) the present system of progressive tax rates would be simplified.

Most proposals for the CIT suggest further tax reform including the elimination of many of the other non-essential deductions, exemptions and tax preferences. The reasons for linking the CIT with tax reform are:

- –the present system of deductions and exemptions severely distorts the progressivity of the tax system and constitutes a kind of alternative transfer system for those with income.
- –the cost of the CIT could be drastically reduced by increasing the size of the tax base.
- –administering the CIT would be simplified if income were taxed at its source, initially, at a single primary tax rate and if the incredible complexities arising from the vast number of exemptions from taxable income could be reduced.

The whole question of tax reform is an exceeding complex and politically volatile one and we cannot here examine the relative worth of each of the present exemptions or recommend which might be eliminated. Clearly, some should not. The point is that one way to finance this plan (which amounts to a national minimum income guarantee) is by broadening the base of the individual income tax. It is also the way in which the tax system could be made more progressive and more equitable.

Under the CIT all income would be taxed at its source at a single initial tax rate. However, in addition to this single initial rate at which all of everyone's

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income would be taxed, an additional surcharge (or higher tax rate) might then be applied to persons with annual incomes over some specified level. It is important to understand that although all income would initially be taxed at the same rate, the end result of this system would clearly be progressive. Because everyone would receive the same tax credit, the average effective tax rate would rise as income rises. Table II demonstrates how, under a CIT, people at higher income levels would have progressively higher average effective tax rates. This table does not include the possibility of having people with high incomes pay additional taxes at the end of the year.

Table II

Average Effective Tax Rate
Goes Up As Income Goes Up

If Tax Credit $1000 per Person
and Primary Tax Rate 40%
For a Two Person Family

*A Negative Tax Rate Means the Family Gets a Net Transfer

Income	*Tax Liability* (Income x .40)	*Net Tax* (Income - Credit Tax Liability)		*Average Effective Tax Rate* (Income Net Tax)
$ 0	$ 0	-$2000	Negative Taxes:	
$ 2000	$ 800	-$1200	Family Receives	60%*
$ 4000	$1600	$ 400	a Transfer	-10%
$ 5000	$2000	0		0
$ 6000	$2400	- $ 400		6.6%
$ 8000	$3200	+ $1200		15%
$10,000	$4000	+ $2000	Positive Taxes	20%
$12,000	$4800	+ $2800	Family is a	23%
$14,000	$5600	+ $3600	Net Taxpayer	25%
$16,000	$6400	+ $4400		27%
$18,000	$7200	+ $5200		29%
$20,000	$8000	+ $6000		30%

For the two person family with no income, taxes are zero. The negative tax liability (−$2,000) means that they receive a net transfer of $2,000. If a family' income is $2,000, their primary taxes are $800. But since they get a tax credit of $2,000, their actual tax liability is negative (−$1,200) which means they get a transfer. Their average effective tax rate is negative (−$60%) which means their income of $2,000 was augmented by 60% under this system. The positive tax rates which begin at income of $6,000 mean that the family has its initial income reduced by 6.6% (they pay out positive taxes).

An additional virtue of the single primary tax rate and tax credit is that it would greatly reduce whatever work disincentives are caused by the high marginal tax rates which low income workers and welfare recipients face under the present tax and transfer systems.

III. *The amount of the tax credit and who receives it.*

The third element in the system is the level of the individual tax credit and the definition of who is to receive it. In terms of adequacy it would be best for the amount of the credit to be set at a level that would assure everyone of at least the official poverty level of income (this was $4,540 for a family of four in 1973). Most of the proposed plans set the credit at from $1,000 to $2,000 per person. But it must be remembered that the level of the tax credit in combination with the primary tax rate will determine the breakeven point—that income level at which tax liability is equal to tax credit. Given the tax rate, as the level of the tax credit is moved up, the breakeven point moves up. This is demonstrated on Table III.

Table III

Breakeven Income

This is the Income Level at Which
Tax Credit   Tax Liability

If Tax Credit is	$1000	$1500	$1000	$1500	$1000	$1500
And Tax Rate is.	30%	30%	40%	40%	45%	45%
Breakeven Income occurs at this Level for						
One Person	$3000	$5000	$2500	$3750	$2222	$3333
Two Person Family.	$6666	$9000	$5000	$7500	$4444	$6666

The higher the level at which the tax credit is set and the lower the tax rate, the larger is the proportion of the population receiving a net transfer from the system and the smaller the proportion contributing positive taxes to finance the system.

With a tax credit of $1,500 per person and a 50% tax rate, the breakeven point for a family of four is $12,000 of income. This is the income level at which one (in effect) pays no taxes and receives no transfer. If the system is not to run a net deficit then once the tax rate is set and the income base defined the amount of the tax credit will be fairly inflexible. In all likelihood both of these key elements (the tax rate and the definition of taxable income) will be determined by political expedience and, there will be only a narrow range within which the amount of the tax credit can be set. As such, no specific proposal will be made here.

Several alternatives have been suggested as to who will receive the credit:

a. a constant per capita grant for all adults (around $1,500).

b. a two stage variable per capita grant with one level for adults ($1,500) and another for children ($300).

c. a multi stage age linked per capita grant (age 65 and over $1 [illegible]0, age

55-64 $1,200, age 18-54 $1,000, age 14-17 $400, and under 14 years old $200 per year),

d. a variable per capita grant based on family size (the first two persons in any family get $1,250 each, the next two get $750 each, the fifth and sixth persons get $500 each and all those after six get $250 each).[29]

Each of these plans would have different costs and different impacts on income distribution. Plan b. offers the highest level of income guarantee overall and would consequently cost the most (that is, require the highest tax rate and/or the largest income base, and/or run the largest deficit). Plan c., where the level of the grant varies with age would be the least costly overall and would distribute a relatively larger share of benefits to the aged and to childless couples than to other groups in the population. Plan a. ranks third from the top in terms of costs and is obviously the least beneficial for large families as it pays benefits only to adults. Plan d., which is second from the top in cost, is the most generous of all the plans to large families.

Questions have been raised however about the wisdom of linking benefits to family size. Because the actual amount of the per capita grant goes down as family size increases (although the amount of the total grant to the family rises) there is an economic incentive for a large family to split up. It could receive its tax credits as say two, three person families rather than one, six person family. Although it is questionable whether this would actually happen, it opens the way for the usual array of complex and demeaning procedures to insure that the poor are being honest.[30]

IV. *The implications of a credit income tax.*

The costs, incidence of positive taxes, and distribution of benefits under a CIT are all determined by the three key elements: the level of the tax rate, the amount and number of recipients of the individual tax credit and the definition of taxable income. Since we have not embraced a specific plan or enumerated specific values for these three determinants, it is not possible to spell out exactly what the outcome would be.

An example of how the CIT might work is provided by Ben Okner in his paper for the Joint Economic Committee, "The Role of Demogrants As An Income Maintenance Alternative." Okner estimates the implications of the four plans mentioned above.[31] The most expensive of these, Plan b. (with a tax credit of $1,500 per adult and $300 per child) would reduce the total number of poor families in this country by 80%.

Plan c., the least expensive plan (where benefits vary by age from $200 to $1,500 per capita) would reduce the total number of poor families in this country by 71%.

The other two plans, a. ($1,500 per adult) and plan d. (individual benefits vary with family size) would reduce the number of poor families by 76% and 80% respectively.

Because the CIT is a universal system involving families at all income levels and because it has been linked with tax reform, it could have a significant impact on the overall distribution of income in this country. It is possible to check its income redistributive tendencies by limiting the tax reform and by setting the tax credit at a low level. But in this case, the income maintenance function will be seriously weakened. The point is that these two functions cannot be manipulated independently under a universal credit income tax. To the extent that it provides an adequate and equitable income guarantee, the CIT will also affect the overall income distribution.

In comparing the way Okner's four tax credit plans would have redistributed income in 1970 with the way the present tax and transfer system did it, Okner estimates that in general, all the plans would give the three lowest quintiles a larger share of post tax income than they currently receive. The share of the fourth quintile is reduced much as it is under the present system and all four plans involve significant reductions in the share of post tax income held by those in the top quintile.

V. *How the credit income tax would fit in with the present programs.*

The credit income tax was designed with the intention that it would replace many of the current income maintenance programs: SSI, AFDC, food stamps, housing assistance, State funded general assistance, and others. It would not replace the income security system, OASDI and UIB, but participants in these programs might be given the option of either (a) continuing to receive their benefits as usual under the social insurance program, paying no taxes on these benefits and receiving no tax credit (this of course makes the CIT less than universal) or (b) continuing to receive social insurance benefits, paying taxes on them and receiving a tax credit as well.[42]

However, until the actual levels of the tax credit and tax rate are set and the extent of the tax reforms known, it is not possible to assess the adequacy or coverage of a credit income tax. As such, one cannot select which of the current programs could safely be eliminated. Most of the plans that have been proposed would clearly replace a major part of the present "welfare" system and many of the in-kind benefits as well. The whole purpose of the credit income tax as we are advancing it, is that it does replace those programs. If the plan is designed so that benefits are adequate and coverage is universal, the CIT definitely should replace these programs. Plans which are good in theory, however, can become somewhat warped in the political arena. If, as has been proposed by Senators Kennedy, Mondale, and Nelson, a tax credit were instituted in the amount of the current personal tax exemption of $750 per year, it could not seriously be viewed as a replacement for the present programs.[43] At this level, the credit would not provide any semblance of adequacy.

One serious problem is that even under a relatively generous credit income tax, there will be families who suffer a decline in benefits whenever present programs are eliminated. This stems from two aspects of the current system which were discussed earlier (1) the extent of multiple program participation and (2) the wide disparity in benefit levels from State to State under programs which are not fully federalized like AFDC and housing assistance.

There is no remedy for this that does not involve setting the tax credit at unrealistic levels. Phasing out strategies may be devised where the States finance some continuing aid to those whose benefits decline sharply when programs are eliminated. At any event, there will be a definite need for continuation of certain key programs such as those involving medical care which the credit income tax, at whatever level, cannot replace.

Finally, it should be clearly understood that the CIT (or for that matter any income maintenance program) cannot cure the basic problems of the low income population: the scarcity of jobs, lack of job skills, experience, mobility or proximity to jobs, the inadequate health care or the inferior educational opportunities. What it can do is to provide a basic level of income maintenance in a manner that is far more efficient, more equitable, less demeaning, and less damaging to the family stability and work incentives of those with low incomes than the present system.

THE PRESENT PROGRAMS—NUMBERS OF RECIPIENTS

AID TO FAMILIES WITH DEPENDENT CHILDREN

In 1973

total benefits –
$7.8 billion

total recipients –
12.6 million persons
3.4 million families

it is estimated that
78% of all eligible persons participate on this program
91% of all eligible female heads of families participate
37% of all families eligible for AFDC-UP participate

FOOD STAMPS

in 2/74
total benefits –
$2.2 billion (bonus value of food stamps)

total recipients –
13.1 million persons

it is estimated that as of 2/74 between 37 and 39 million persons would be eligible for food stamps and that 26 million who were eligible would not be participating in the program

SUPPLEMENTAL SECURITY INCOME

in fiscal 1974
total recipients (estimated) –
5.3 million

total expenditure –
$2.8 billion

EMERGENCY ASSISTANCE

as of 8/73
total recipients –
17,882 families

MEDICAID

as of 5/73
total beneficiaries –
7.8 million persons

during fiscal 1973
Medicaid serviced a total of
23.5 million persons

MEDICARE

as of 7/73

total covered —

21 million aged persons

1.7 million disabled persons

in fiscal 1973

total recipients of hospital services —

4.7 million

total recipients of doctors' services —

10.5 million

OLD AGE SURVIVORS AND DISABILITY INSURANCE

as of 9/73

total recipients of OAI benefits —

18.9 million

total recipients of SI benefits —

7 million

total recipients of DI benefits —

3.4 million

in fiscal 1974

total OASDHI expenditures —

$98.5 billion

RAILROAD RETIREMENT, DISABILITY AND SURVIVORS BENEFITS

as of 9/73

total beneficiaries —

1 million

FEDERAL AND STATE UNEMPLOYMENT INSURANCE BENEFITS

as of 7/73

total recipients —

1.3 million persons

HOUSING ASSISTANCE

in fiscal 1974

total expenditures —

$2.5 billion

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Summary

of the

National Urban League Position

on

Income Maintenance

38-632 O - 84 - 37

SUMMARY

Twenty-three million people in the United States today live in families with incomes below the poverty level. There are more than 100 federally funded programs now in operation which are aimed at reducing poverty. These programs dispense both cash and in kind benefits (such as food stamps, housing and medical care).

But all the programs together succeed in raising less than one half these families above the poverty level. In addition, many of the present programs are designed in such a way that they are unnecessarily costly and complex to administer, inequitable and demeaning in their treatment of the poor, and may even produce serious work disincentives for the low income population.

The NUL is proposing major overhaul of the entire income maintenance system. Although incremental changes and improvements have been made and can be made in the present programs, there is a clear need for reform of the system as a whole.

What is presented here is a broad outline of the kind of program we would like to see implemented in the long range. Of all the various alternatives to the present system of income maintenance in this country, the one which best fulfills the goals of the NUL is the universal refundable Credit Income Tax.

This program involves a merger of the welfare system and the tax system. Under the CIT each person in the country receives a basic yearly grant (or tax credit) from the government. Each person files a tax return (even those with no income). All income is taxed initially at a single primary tax rate. The actual taxes a person pays are the difference between the tax credit he gets and the primary taxes he pays (primary taxes = income x primary tax rate).

If a person has no income, the primary taxes equal zero, the person keeps the tax credit and, in effect, receives a transfer from the government. This transfer payment would go to all persons with no income as a matter of right and would replace most of the present welfare benefits.

As a person's income rose, the amount of primary taxes to be paid would rise and the net amount of the transfer payment received would decline. This would go on until—at some level of income deemed sufficient—the person's primary taxes would equal the tax credit. In effect, the person would then pay no taxes and receive no transfer.

Above this—breakeven—income level, people in effect pay positive taxes much as they do now and the average effective tax rate would rise as income rose.

The important point about the CIT is that it is universal—everyone files a tax return, everyone gets a tax credit, and everyone, with any income at all, pays primary taxes. There would be no means test (other than the declaration of income on the tax return), no work conditioning and no criteria for eligibility other than a purely economic one. to qualify for a transfer one must have a low income or no income at all.

The poor would not be stigmatized or segregated from the rest of the population and the tremendous waste and inefficiency of the vast, complicated and poorly coordinated array of present programs would be eliminated.

It has been estimated that the CIT could reduce the number of poor families in this country by as much as 80% (the present programs reduce it by 47%). With broadening of the tax base through partial tax reform (elimination of some of the present non-essential deductions and exemptions from taxable income), the CIT--which amounts to a national minimum income guarantee--could be financed without a great increase over the cost of the present programs which it would replace

The CIT would operate in conjunction with the income security programs which currently exist (such as OASDI and UIB).

The CIT (or for that matter any income maintenance program) cannot cure the basic problems of the low income population: the scarcity of jobs, lack of job skills, experience, mobility or proximity to jobs, the inadequate health care or the inferior educational opportunities. What it can do is to provide a basic level of income maintenance in a manner that is far more efficient, more equitable, less demeaning and less damaging to the family stability and work incentives of those with low incomes than the present system

An Analysis of

The Costs and Redistributional Impact

Of The Credit Income Tax

(574)

Since the Credit Income Tax involves changes in both the tax and transfer systems of this country, its costs cannot be assessed in the way one usually assesses the cost of a transfer program (the amount of money it transfers out plus the costs of administration).

Because of the difficulties associated with the whole question of what is meant by "cost" here, we shall avoid using any single definition of it and simply analyze—in gross terms—how the C.I.T. might work, where the money might come from and where it would go in comparison with the present tax and transfer systems.

Under a C.I.T., the government would pay out to each person in the country a tax credit. This is the *total grant outlay*. It is equal to the amount of the individual tax credit times the number of people receiving the credit. Each person would file a tax return and anyone with income would pay taxes back to the government. This is the *gross tax collections*. It is equal to the tax base (amount of taxable income) times the primary tax rate.

It is important to understand that although everyone with income pays some "taxes" under the C.I.T., in reality all taxpayers under the breakeven point (where taxes paid = tax credit received) are in fact receiving a transfer from the government and those over the breakeven point are paying positive taxes which finance the system.

Under the present tax and transfer systems the government transfers large amounts of money to low and middle income persons and the revenues to finance these transfers come from the positive taxes paid by those with taxable incomes. However, at present everyone in the country does not receive a tax credit and many people with very low income receive no transfers at all. The question arises as to how, under the C.I.T. there can be enough revenue to cover the enormous cost of giving this tax credit to all persons with incomes below the breakeven point without taxing everyone above it at prohibitively high rates. This is possible for basically three reasons:

(1) the savings from elimination of the present income maintenance programs (AFDC, SSI, etc.)
(2) enlarging the size of the tax base which means that gross tax collections would be greater than under the present system, and
(3) administrative savings resulting from simplified tax collections (income could be taxed at its source) and simplified administration of the transfer system (no more three-tiered, city state, federal welfare programs, no more costly eligibility investigations, etc.).

One important assumption which we are making here is that the system must be "self-financing" in the sense that the revenues collected by the government must cover the cost of the *total grant outlay* plus at least as much revenue to finance other government programs and activities as there is under the present tax system.

We outlined four possible plans for the C.I.T. on page 11. The plans differ as to the amount of the tax credit and who would receive it. What follows is a summary of Ben Okner's analysis of the relative "costs" of each of these plans in terms of:

(A) *total grant outlay* — amount of the individual tax credit X the eligible population
(B) *gross tax collections* — this is (A) plus (D); it is also equal to the base of taxable income X the primary tax rate
(C) *cost of present welfare programs* — this is the amount currently spent by the Federal government on programs which the C.I.T. would replace
(D) *revenue for all other government programs* — this is the total amount now collected by the Federal Government in personal income tax revenues, minus (C)

Under each of these four C.I.T. plans we are assuming that:

(A) + (D) must equal (B)

and that

(B) = the base of taxable income under partial or comprehensive reform of taxes × primary tax rate.

There are two very important sources of savings under the C.I.T. which are not included in this analysis because of the difficulty involved in estimating them:

(1) the administrative savings involved in tax collections under the C.I.T., and

(2) the savings to the state and local governments in grants and administrative costs associated with the present income maintenance programs which might be eliminated under a C.I.T. At present the state and local governments spend approximately $21.3 billion per year on these programs.

Table I shows how the costs of the C.I.T. vary under each of the four plans as set forth by Okner based on 1970 data.

TABLE I

Gross Cost Estimates of the Four C.I.T. Plans

(C) Cost of present programs $7.5 billion

(D) Revenue for all other government programs $76.3 billion

(C) and (D) remain constant for all four C.I.T. plans

PLAN (A) TAX CREDIT OF $1500 TO ALL ADULTS

(A) Total grant outlay $194.3 billion

(B) Gross tax collections required $270.6 billion

Primary tax rate: 42.8% under partial tax reform[1]; 39.2% under comprehensive tax reform[2]

PLAN (B) TAX CREDIT OF $1500 TO ALL ADULTS AND $300 TO ALL CHILDREN

(A) Total grant outlay $215.4 billion

(B) Gross tax collections required $291.7 billion

Primary tax rate: 46.1% under partial tax reform; 42.2% under comprehensive tax reform

PLAN (C) AGE RELATED TAX CREDIT

(65+ - $1500, 55-64 - $1200, 18-54 - $1000, 14-17 - $400, 0-14 - $200)

(A) Total grant outlay $158.4 billion

(B) Gross tax collections required $234.7 billion

Primary tax rate: 37.1% under partial tax reform; 34.0% under comprehensive tax reform

PLAN (D) TAX CREDIT BASED ON FAMILY SIZE

(First 2 persons in family get $1250 each, 3rd and 4th $750 each, 5th and 6th $500 each, all others get $250 each)

(A) Total grant outlay $200.7 billion

(B) Gross tax collections required $277.0 billion

Primary tax rate: 43.8% under partial tax reform; 40.2% under comprehensive tax reform

All of the above estimates are based on 1970 data on taxes, population and program costs.

Under Plan (C) which gives the lowest level of tax credits, the total grant outlay of $158.4 billion is the smallest of any of the plans and Plan (B) with the most generous tax credits has therefore the largest total grant outlay, $215.4 billion.

The gross tax collections required under each plan is simply (A) the total grant outlay plus (D) the $76.3 billion raised by the present tax systems for all other government programs.

The gross tax collections required vary as the total grant outlay varies. Under Plan (B), the most generous plan, the government would have to collect $291.7 billion in personal income taxes in order to pay for the tax credit of $1500 to all adults and $300 to all children and still have funds left for other government programs. Under Plan (C), the cheapest plan with the lowest tax credit, gross tax collections would have to be $234.7 billion.

These figures can be misleading however if it is not clearly understood what the terms *total grant outlay* and *gross tax collections required* actually include. *Total grant outlay* is in no sense comparable with the costs of the present income maintenance programs because it includes all the tax credits paid out to people at the breakeven point and higher - people who will in actuality refund their tax credit to the government in the taxes they pay. Even people below the breakeven income level will be refunding part of their tax credit to the government unless they have no income at all and pay no taxes therefore. The comparable present total grant outlay would be the costs of all the income maintenance programs plus the total amount of the present personal exemptions and standard deductions included in the tax system, plus all the other exemptions and deductions from taxable income which were earlier discussed.

Included in our proposal for a Credit Income Tax is the assumption that it would be accompanied with some measure of tax reform. As mentioned earlier, tax reform would increase the size of the tax base and would among other things, facilitate administration of the C.I.T. As the figures on Table I show these two elements work together: the primary tax rate and the size of the tax base. With greater tax reform and a larger tax base the primary tax rate [illegible] falls. With less tax reform and a smaller tax base, higher primary tax rate is needed to raise the gross tax collections required.

Ben Okner looked at two alternative tax reform plans: partial and comprehensive. Both partial and comprehensive tax reform would provide a larger base of taxable income than exists under the present tax laws (the comprehensive plan would enlarge this base by about 70%). The particular exemptions, deductions and preferences which are eliminated under Okner's reform plans are not necessarily the specific ones which the NUL would like to see eliminated and therefore one must remember in looking at the estimates on TABLE I of the primary tax rates necessary to finance each of the plans that these tax rates are based on the size of the taxable income base given *a specific set of tax reforms*. If one were to introduce more extensive tax reform measures than Okner's, the size of the tax base would be larger and the primary tax rate lower. Less extensive reform would increase the level of the primary tax rates. In any case the partial and comprehensive reform plans used by Okner serve as useful guides for estimating the overall costs of the C.I.T. The actual reform measures are spelled out in detail in References 1 and 2.

The figures on Table I show that under the most generous plan (Plan B) the primary tax rate would be around 46.1% with partial tax reform while under comprehensive reform, which means a larger tax base, the tax rate required to finance the system drops to 42.2%. Under Plan (C), the cheapest plan, the primary tax rate would be 37.1% with partial reform and around 34.0% given comprehensive reform.

If, as suggested earlier, a surtax were to be introduced on incomes over a certain level, for example if everyone with income over $20,000 per year were to pay a 10% surcharge, this would lower the level of the primary tax rate need for the system as a whole, that is, the tax rate at which all other income was taxed.

It is important to understand that the primary tax rates listed on Table I are not the actual rates at which everyone's income would *effectively* be taxed, and cannot therefore be compared with the present structure of tax rates in this country. This was explained in greater detail and the figures on Table II, page 13, to show how under a C.I.T. plan with a primary tax rate of 40%, the average effective tax rate which individual families face rises as income rises. A two person family, getting tax credits of $1000 per person, faces an average effective tax rate of 20% if their income is $10,000 per year and one of 29% if their income is $18,000 per year, even though the primary tax rate is set at 40%.

The redistributive impact of these four C.I.T. plans will now be examined and compared with the way the present tax and transfer systems redistribute income in this country.

Table II is based on Okner's estimates of the redistributive effects of the four plans.[3] Column 1 shows what share of total income is received by each 1/5th (quintile) of the population in this country before taxes and transfers. The terms, lowest 1/5th, second 1/5th, etc., refer to an artificial division of the population into five groups depending on the relative level of their income. It is as though we lined up the whole population and ranked them by income from lowest to highest and then divided them into five equal sized groups. If income were evenly distributed each group (which contains 20% of the population) would receive 20% of total income. In fact, as Table II indicates this is not the case.

In column 1 we see that the lowest 1/5th received only 1.8% of total pre-tax and transfer income in 1970. The present system of taxes and transfers increased the share of this lowest quintile to 5.29% (column 2). Columns 3, 4, 5, and 6 show the share this lowest group would have ended up with under the four C.I.T. plans. This ranges from 6.70% (Plan D) to 7.01% (Plan B), of total income after the tax credits were paid out and the taxes collected.

It can be seen from Table II that the second lowest 1/5th of the population and the third lowest 1/5th would also end up with a larger share of income under the four C.I.T. plans than they do under the present system. The fourth quintile (the group with the second highest incomes) would not experience much change under any of these four CIT plans. They presently get 23.27% of pre-tax and transfer income and would get from 22.9% to 23.24% under the C.I.T.'s.

TABLE II

The Redistributive Impact of the Four C.I.T. Plans
Compared with the Present Systems

Quintile	Pre-Tax and Transfer Share	Present Post Tax and Transfer Share	Share of Income After Taxes and Transfers Under C.I.T. Plan (A)	(B)	(C)	(D)
Lowest 1/5th	1.80%	5.29%	6.91%	7.01%	6.75%	6.70%
Second 1/5th	6.82	8.84	10.58	10.76	10.19	10.54
Third 1/5th	14.67	14.97	16.18	16.41	15.77	16.45
Fourth 1/5th	24.09	23.27	22.98	23.08	22.90	23.24
Highest 1/5th	52.62	47.63	43.35	42.47	44.39	43.07
total	100%	100%	100%	100%	100%	100%

All of the above estimates are based on 1970 data and on a comprehensive tax reform base for the four C.I.T. plans.

The top quintile, on line 5 of Table II—those with the highest incomes, who receive 52.62% of all income before taxes—would be left with a smaller share of total income under the four C.I.T. plans than they are under the present tax system. Now, they end up with 47.63% and under the C.I.T.'s they would get from 42.74% to 43.35% of total income.

Table II is based on the assumption that there is no surtax on higher incomes. If the C.I.T. were accompanied by such a surtax, this would mean a smaller share of post tax income for those in the top quintiles. Which quintile it affected would depend on the income level at which the surtax was set. It could be set up so as to reduce the share of only the top 1/5th and this would mean a lower primary tax rate to be applied to the income of everyone below the surtax level and consequently larger shares of post tax income for those in the quintiles below the level of the surtax. The surtax would make the system that much more progressive. In other words, it would do more toward equalizing the distribution of income.

In comparing the four C.I.T. plans, the estimates on Table II indicate that Plan (B) would effect the largest amount of income redistribution: it would increase the shares of the bottom quintiles more than any of the other three plans and would decrease the shares of the top quintiles more. Plans (C) and (D) are the least progressive. Table III shows the redistributional impact of the four C.I.T. plans in terms of the percent change in the share held by each quintile under each plan.

TABLE III

Percent Change in Shares of Total Income Held by Each Quintile After Taxes and Transfers Under the Four C.I.T. Plans

Quintile	*Change in Post Tax Share Under C.I.T. Plan* (A)	(B)	(C)	(D)
Lowest 1/5th	+31%	+34%	+28	+27%
Second 1/5th	+20	+22	+1?	+19
Third 1/5th	+8	+10	+7	+10
Fourth 1/5th	1	1	2	less than .5
Fifth 1/5th	9	10	[illegible]	10

While tax reform is in itself an increasingly popular objective and a desirable one if the tax system in this country is to be realigned with its original goal of taxing income progressively, we are discussing it here as one element in an income maintenance program. As such, the major question left to be answered is: to what extent will the redistribution of income as described above eliminate or reduce the incidence of poverty?

Obviously the more a C.I.T. plan redistributes income from those in the upper quintiles to those in the lower quintiles, the more effective it is in eliminating poverty in relative terms. The figures on Table IV are drawn from Okner's estimates of the extent to which each of these four C.I.T. plans would reduce the number of families with post tax and transfer incomes below the poverty level. Clearly, all four plans would have a tremendous impact. The present system in 1970 left 13.5% of all families below the poverty level of income. Under C.I.T. plan (B)—the most generous of the four Plans—only 2.7% of all families in the country would remain below the poverty level of income after taxes and transfers.

TABLE IV

How the Four C.I.T. Plans Would Reduce the Number and Percent of Families with Post-Tax Incomes Below the Poverty Level

	Present System	C.I.T. PLAN (A)	(B)	(C)	(D)
Total number of poor families after taxes	9.0 million	2.2 million	1.8 million	2.7 million	1.8 million
Percent of all families below poverty level after taxes	13.5%	3.2%	2.7%	4.0%	2.8%

The above estimates are based on 1970 data.

Finally, we will look at Okner's comparison of the redistribution of income under the four C.I.T. plans with the way it is currently redistributed by income class. These estimates are also based on 1970 data and are listed on Table V. On line 1 we see that those with incomes under $3000 in 1970 had their incomes increased by 181.1% by the tax and transfer system. C.I.T. Plan (A) had it been in effect would have increased their incomes by 271%, Plan (C) by 257% and Plan (D) by 254%. Line 2 shows that those in the $3000 to $5000 category of income were also net gainers under the present system which raised their income by 13.8% in 1970. All four C.I.T. Plans would increase the incomes of this group by a larger percentage. Those with incomes from $5000 to $10,000 in 1970 effectively paid 2.4% in taxes (their income was reduced under the present system). Continuing on line 3 we see that all four C.I.T. plans would transfer income to those in this group rather than taxing them. Those above the $10,000 level of income, on line 4, become net taxpayers under all four C.I.T. plans. The effective rate listed on Table V for each income class and for each Plan is, in fact, the average effective rate at which persons in that income class would be taxed. If it is listed at a negative rate (like -181.1 on line one under Present System) this means that persons in this income class receive a net transfer from the government—effectively a negative tax. When the rate is positive (no minus sign) the people in this income class pay positive taxes to the government.

TABLE V

Percent Increase or Decrease in Income Under Present Tax and Transfer System Compared with Four C.I.T. Plans

(a negative effective tax rate means people in this class receive a transfer)

People in this income category	*Are taxed at this rate at present*	(A)	(B)	(C)	(D)
		And would be taxed at these rates under C.I.T. Plan			
Under $300 pr. yr.	-181.1%	206.1%	271.3%	257.5%	-254.7%
$3000-$5000	13.8	37.4	39.8	30.9	37.3
$5000-$10,000	2.4	5.1	6.5	2.5	6.8
$10,000-$15,000	7.8	9.5	9.1	9.7	8.4
$15,000-$20,000	9.2	15.6	16.1	14.8	15.6
$20,000-$25,000	14.0	19.3	20.1	17.9	19.8
$25,000-$50,000	[illegible]	23.4	21.8	21.3	24.4
$50,000-$100,000	20.1	28.2	30.0	24.7	28.5
$100,000-$500,000	20.7	30.8	33.0	26.7	31.3

Present rates are based on 1970 data

All of the preceding cost and redistributional impact estimates were done by Ben Okner in 1973 based on tax, population and income data from 1970. It was not possible in this study to fully update most of these estimates due to the scope of this project and the unavailability of more recent data.

Okner did make some projections for 1975 and these are presented on Table VI. Based on his expectation of an increase in the cost of living, Okner increased the amount of the tax credit to $1750 for an adult and $350 for a child (Revised Plan B). This corresponds to roughly 90% of the poverty income level for 1975.

Also on Table VI are our updated estimates of the gross cost of a C.I.T. plan with $2000 tax credits for each adult and $350 for each child. This is Plan B Augmented. The figures in this part of Table VI are based on actual 1974 data on income, taxes, population and costs of present income maintenance programs. We increased the amount of the tax credit in order to demonstrate that even under a C.I.T. plan with tax credit levels very close to the poverty level that is a relatively generous plan—the primary tax rate, assuming that tax reform takes place, would still be within the range of a reasonable level. The actual level of these primary tax rates under Plan (B) Augmented are based on Okner's estimates of the size of the base of taxable income under partial and comprehensive tax reform and the size of this base is probably larger than would actually be the case for 1974. As such, the primary tax rates listed under Plan (B) Augmented are probably slightly lower than they would be if calculated on the actual revised income base for 1974 under partial and comprehensive reform.

TABLE VI

Okner's Gross Cost Estimates for 1975

REVISED PLAN (B) TAX CREDIT OF $1750 PER ADULT AND $350 PER CHILD

(A) *Total grant outlay* $281 billion

(B) *Gross tax collections required* $408 billion

(C) *Cost of 1975 income maintenance programs which the C.I.T. would replace* $17 billion

(D) *Revenue for all other government programs* $127 billion

(A) + (D) = (B)

Base of taxable income in 1975	$ 975 billion (under partial reform) $1060 billion (under comprehensive reform)
Primary tax rates needed to finance system	41.8% under partial reform 38.5% under comprehensive tax reform

COST CALCULATIONS FOR 1974

PLAN (B) AUGMENTED TAX CREDIT OF $2000 PER ADULT AND $350 PER CHILD

(A) *Total grant outlay*[5] $311.6 billion

(B) *Gross tax collections required* $379.88 billion

(C) *Cost of 1974 income maintenance programs*[6] $25.36 billion

(D) *Revenue for other government programs* $93.64 billion

Assuming Okner's estimates of size of taxable income base as above

Primary tax rates needed to finance system	35.8% under comprehensive tax reform 38.9% under partial tax reform

REFERENCES

1 The full details of the specific tax reform measures which Okner assumes under partial and comprehensive tax reform may be found in Supplement A, pg 30 of his paper, "The Role of Demogrants as an Income Maintenance Alternative," in Joint Economic Committee of the Congress of the U.S., Subcommittee on Fiscal Policy, *Studies in Public Welfare* Paper No 9 Part 1, *Concepts in Welfare Program Design*, USGPO, April 20, 1973.

2 Briefly, the measures included are *comprehensive reform* = fully taxing realized capital gains and gains on assets transferred by gift or bequest, eliminating all homeowners' preferences, taxing net imputed rent on owner-occupied dwellings and eliminating all itemized deductions for property taxes and mortgage interest, taxing transfer payment receipts, disallowing itemized personal deductions for medical expenses that are less than 5% of income and charitable contributions that do not exceed 3% of income and eliminating the percentage standard deduction which is allowed under the present tax system
Partial reform = fully taxing realized capital gains, capital gains transferred at death or by gift, itemized personal deductions would be retained for state-local income and property taxes, interest up to the amount of property income reported on the tax return, medical expenses and charitable contributions to the extent that they exceed 3% of income. The present per capita exemptions would be eliminated and the standard deduction would be reduced to 8% of income up to a maximum of $800 for taxpayers who do not itemize deductions

The rate advantages from income splitting would be eliminated under both partial and comprehensive reform plans

3 based on Bureau of the Census population estimates for 1974 of 143,907,000 persons over 18 and 69,002,000 persons under 18 in the U S

4 Includes actual federal expenditures in 1974 for public assistance, social services, S S I., food stamps and housing assistance programs It is clear from the 1974 figure of $25.36 billion that Okner's estimate of program costs for 1975 is possibly much too low

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WELFARE *IS* THE PROBLEM

David A. Stockman

Every session of Congress in the past decade has seen the start of a major effort to revise the tangled mass of transfer payment programs that constitute our nation's welfare system. Each of these efforts, including the one begun by the Carter Administration last year, has ended in a stalemate. The persistence of the stalemate is all the more remarkable in light of a near universal perception of irremediable flaws in the existing system. The reasons underlying the rejection of such disparate approaches as the Nixon Administration's Family Assistance Plan and the Carter Administration's Program for Better Jobs and Income are only now becoming apparent.

Many serious watchers of the welfare reform debate on Capitol Hill have reached a consensus on the causes of the Congressional stalemate. This view, ably articulated by Senator Daniel P. Moynihan in a recent article in THE JOURNAL [OF] THE INSTITUTE FOR SOCIOECONOMIC STUDIES,* holds that comprehensive welfare reform requires so many trade-offs that no one is able to muster the political skill to fashion a compromise acceptable to a majority of the competing factions. Consider just two of the seemingly irreconcilable sets of conflicting goals: the demands of state officials for fiscal relief vs. those of advocates of higher benefit levels and the program designers' quest for administrative simplicity vs. effective mechanisms for reducing fraud and abuse. Compromise has proven impossible.

However, as difficult as it may be to shape a politically acceptable formula for revision of the welfare system, the real obstacle to change is more fundamental. The legislative log-jam is only a political overlay masking a basic policy dilemma that is the true source of the stalemate.

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David A. Stockman

A breakthrough in this policy conundrum may be in the offing, however. The revival of marginalist thinking in the public policy arena offers the promise of an Alexandrian sundering of the political Gordian knot. Sudden and unexpected Congressional support for the Steiger Amendment, which lowers the tax on income from capital gains, and the gathering momentum of the Kemp-Roth plan for a 30 percent cut in personal income tax rates indicate a renewed awareness of the power of government policies to shape individual behavior through incentives that influence decisions on the margin.

Former *Wall Street Journal* editorial writer Jude Wanniski succinctly described the marginalist perspective in a recent book bearing the modest title, *The Way the World Works*:

> *As a general rule of the economic model, the only way a government can increase production is by making work more attractive than non-work... The statement may seem childishly simple, but economists frequently argue that when individuals are taxed more they will work harder in order to attain a target level of income or wealth. These arguments can be supported by anecdotes, but cannot be true on the margin. If the person taxed works harder, then it follows that the person who receives the tax receipts works less, and there are thus neutral effects on income. All economists agree, though, that in addition to an "income" effect there is a "substitution" effect, and that clearly a worker substitutes leisure for work when his tax rate is raised.*

What remains to be pointed out is that this response to high marginal tax rates is not confined to upper income investors or upwardly mobile middle income citizens. There is little reason to believe that the poor respond to high marginal tax rates any differently than the wealthy.

The More You Tax, The Less You Get

Although the poor can in most instances fill out a Form 1040 and end up owing the IRS only a tiny percentage of their income — if they pay any tax at all — they are nevertheless subject to marginal tax rates that match or even exceed the marginal rates faced by our wealthiest citizens. The marginal tax rate faced by welfare recipients results from the combined effect of the benefit losses and income tax liabilities that they incur when they increase their non-welfare earnings Under the current AFDC-Food Stamp program, many welfare recipients face a marginal tax rate of 70 percent or more For every dollar gained through increased work effort, they lose 70 cents through reduced benefits or increased income tax liability At certain income levels, the marginal rate under the AFDC-U program (for families that include an unemployed father) exceeds 100 percent - gaining a dollar through increased work effort leads to a net loss in total family income Faced with these astoundingly high marginal tax rates, the welfare recipient has come forth with an outpouring of creative effort and ingenuity that matches or even surpasses the kaleidescope of tax-sheltered investments devised by the wealthy The difficulty is that such "tax avoidance" by welfare recipients is uniformly counterproductive, for society as well as for the recipients themselves

There is a saying that goes "the more you tax something the less of it you get" Nothing could more aptly describe the effect of the high marginal tax rates of the existing welfare system on the work effort of welfare family heads Nor is the impact limited to work effort alone High marginal tax rates introduce perverse incentives that erode family stability, decrease parental responsibility and encourage welfare fraud among the beneficiary population In short high marginal tax rates are the analytical key to understanding the whole range of problems associated with the welfare issue

The reduction of work effort is undoubtedly the most obvious effect A dramatic example is provided by the programs in which families with unemployed fathers receive benefits Under such programs, earned income in excess of $360 per year is taxed at a rate of 67 percent up until the point at which the father works 100 hours per month or more — the equivalent of a half-time job After that point *the family is disqualified from further assistance payments altogether* Due to this absurd provision, a family in which the male head chooses to accept a full-time job at the same wage rate as the prior half-time job will actually suffer a net *decrease* in take-home income once the loss of in-kind benefits such as Medicaid and food stamps is taken into account No "culture of poverty" is necessary to explain why fathers of such families decline invitations for full-time employment Confronted with this negative incentive on the margin the male head of a welfare family will be as much of a "rational economic man" as any

Wall Street banker could possibly be

The situation is equally grim for female family heads over many income ranges of the regular AFDC program A welfare mother in my home state of Michigan who chooses to go from a half-time to a full-time job at $3.00 per hour stands to *reduce* family income by better than $47.00 per month — a marginal tax rate of 117 percent!

None of the proposals that have been before the Congress this year resolve this problem in a satisfactory manner The incremental approaches, despite expansions of the earned income tax credit to a wider family income range, only reduce the marginal tax rate from the 70-100 percent range to a more modest 60-90 p[illegible]cent range for the majority of welfare recipients The response of t[illegible] wealthy to such tax rates is to shield their income from taxation t[illegible]ough tax preferences accounting gimmicks, and non-taxable comp[illegible]nsation Lacking these mechanisms, the only way the poor can sh[illegible]d income is to conceal it illegally or take it in the form of leisure o[illegible] her non-measurable, non-taxable benefits

The President can claim with some justice to have sought to end the work disincentive faced by welfare recipients at the lower end of the income scale The problem with the Administration welfare reform plan was that it went after this goal by *broadening* the income range subject to the disincentive-producing high marginal tax rates of the present welfare system In effect the President proposed that we export these high marginal rates to the middle class

The primary cause of the highly undesireable "export" was the exemption in the Administration plan of the first $3,800 in family income from the benefit reduction formula Welfare parents who took jobs in the $5,000 to $6,000 range would, by the Administration plan, have experienced a small loss in benefits But if family income rose above this modest level, the benefit reduction formula in the Carter Program for Better Jobs and Income (PBJI) would take the character of a sharply progressive tax rate schedule Income in the range of $6,000 to $12,000 would be taxed at marginal rates in the range of 55 to 65 percent Thus, while the first increments of additional family income would be protected from the high marginal rates of the current system, the work disincentive effect reappears with undiminished vigor a bit further up the income scale When combined with other features of the President's plan, such as the expansion of the earned

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income tax credit and a new payment to offset taxes for low-income workers, the $3,800 disregard would have ensured that a larger share of American families than ever before would become subject to the work disincentives now reserved for the very poor

The work disincentive is not the only adverse effect of high marginal tax rates, however. An equally acute problem is the strong financial incentive for the dissolution of nuclear families in our present system — an incentive that would have been perpetuated under the President's PBJI.

The clearest incentive for family break-up is well known. Under the present system, particularly in the states that do not offer a welfare program for families including both unemployed parents, a father who is uninterested in working can provide his family with an income of as much as $6,000 annually by the simple expedient of absenting himself from the home and thereby enabling his wife to qualify for AFDC benefits and associated in-kind transfers. The PBJI, which offered almost two times as much in benefits to single women with small children as it does to intact families, would have done little to reduce this incentive to family dissolution and fraud

The incentive for family dissolution is not confined to families with unemployed fathers, however, nor is it confined in its effect to families that would in the absence of the incentive be close to breaking up. The very same powerful financial incentives act on families with fathers who *do* want to work and who may have moderately well-paying jobs. For example the State of Michigan, through its AFDC program, pays a "bounty" of nearly $4,000 per year to each family that causes its $9,000-per-year father to disappear - officially — from the household. Although the notion that adult couples would be willing to maintain an informal or episodic living arrangement in order to qualify for AFDC and secure a net gain in family income of $4,000 may offend middle-class sensibilities, every welfare caseworker can attest to the pervasiveness of this practice among the welfare beneficiary population

The high marginal tax rates of the means-tested welfare system also erode parental responsibility in homes in which the parents are legally separated. According to a comprehensive HEW survey of AFDC recipients, fully *83 percent* of absent or non-supporting fathers potentially had earning or child support paying ability; that is, they were not dead, incapacitated, or otherwise unavailable. Nevertheless, only *5.6 percent* were found to be subject to court-ordered child support payment obligations, and less than an additional four percent were providing support under a voluntary arrangement. Moreover, even the child support provided by this small fraction of fathers consisted primarily of token payments. *Half* of the court-ordered fathers were paying less than $75 per month — frequently less than $25 — and nearly *two-thirds* of those under voluntary arrangement were paying $75 or less.

In short, only five percent of potentially capable, but absent, fathers were making more than token payments for the support of their own children. Of course, not all of the 90 percent of absent fathers failing to provide child support are delinquent in the strict sense. Large numbers fall into the "officially" separated category described previously. To some unknown degree their children benefit from the combined pool of shielded earnings and transfer payments available to the family.

In the case of genuine separations — which undoubtedly number in the millions — the legal machinery for enforcing child support obligations is nearly worthless. Under both the existing program and the alternative proposals that came before the Congress this year, *the tax rate on child support payments is 100 percent*. The deserted mother thus has absolutely no incentive to seek out the father or to cooperate with civil enforcement authorities and the courts. Any amounts retrieved go to recoup the state's welfare costs or result in a dollar-for-dollar reduction in her benefit entitlement. It is little wonder that so few errant fathers are ever brought to task for turning their child support responsibilities over to the public welfare administrator.

Perhaps the most serious failing of the welfare system we have today, at least in the public mind, is the substantial amount of fraud and abuse it engenders. The most common forms of recipient fraud are concealment or non-reporting of assets or income in order to establish eligibility for benefits at higher levels and failure to report changes in financial circumstances in order to maintain eligibility.

The extent of fraud and abuse under the current system is remarkable only in that it is not even more widespread. The high marginal tax rates of the current system have raised the stakes for concealing income to a level that can justify quite a bit of risk And just as with the Internal Revenue Code, the effect of these high tax rates has led to the creation of a labyrinthine structure of definitions and distinctions for the determination of what is "taxable" — in the sense of resulting in benefit losses — income.

The average AFDC caseworker manual contains over 200 pages of text setting forth the distinctions between income that results in reduced benefits and income that has no effect on benefits. This mass of paper grows apace as the system tries to take cognizance of ever finer shades of definition in order to achieve some rough equity It is little wonder that state AFDC programs require more than 100,000 employees just to make payment determinations.

The high marginal tax rates of the present system contribute to administrative complexity in another way by establishing a strong countervailing force to the stringent behavioral standards for employable welfare recipients that require maximum "work effort." Legions of caseworkers and investigators are needed to ensure compliance with the work effort standards: this should not come as a surprise in a system that rewards work effort by taxing away most of the resulting earnings.

The irony in all this is immense We offer strong financial incentives to welfare recipients to shelter a few hundred dollars in earnings from tax by concealing them. Then, we pay welfare workers $15,000 per year to ferret out fraud and bring it to the attention of $30,000-per-year prosecuting attorneys This can never be a winning proposition

The "Iron Law of the Break-Even Point"

It would appear that the problems resulting from the high marginal tax rates of the present welfare system would be amenable to a simple solution We could lower these high marginal rates to a level at which work disincentive and the encouragement of fraud and family break-up would disappear. But it would be necessary to bring the marginal rate to below 30 percent in order to produce any meaningful change — and that causes us to run into what may be called the "Iron Law of the Break-even Point"

The "Iron Law" is this any system that establishes even a barely adequate minimum family or household benefit entitlement *requires* high marginal tax rates in order to keep the "break-even point" (the income level at which eligibility for public assistance would end) at a politically acceptable income level

The following examples illustrate the operation of the Iron Law if the minimum family benefit for a family of four is set at the near-poverty level of $6,000 and the marginal tax rate on earnings is kept to 25 percent, the break-even point is an annual income of $24,000 Under such a system more than two-thirds of all American families would receive some form of cash welfare payment Even if the marginal tax rate is permitted to go up to 40 percent, the break-even point is nearly $15,000. This would include half of all families, a result that is no less politically unsalable than the first example.

Only a marginal tax rate of 70 percent or higher can lower the recipient population to a reasonable fraction of the total population With the $6,000 benefit level, a 70 percent marginal rate yields a break-even point of $8,600 in annual income

The incremental approach to welfare reform favored by the Carter plan sought to circumvent the operation of the Iron Law by placing a ceiling on income for entry into the welfare system that was below the break-even point for those already in the system Thus, those who qualified for benefits by reason of an income below the threshold would retain benefits even after their income rose above the threshold. This permitted the imposition of a lower marginal tax rate on the efforts of welfare recipients to improve their earnings This was only achieved, however, by dint of the serious inequity inherent in this device for restricting the eligible population to a reasonable level Thus, two neighboring families might each have current incomes of $7,000 One would be receiving significant welfare benefits because its income had earlier been lower. The other would not qualify for any benefits

Expedients such as this can ultimately offer little relief from the Iron Law Inevitably the constraints of limited budgets make the adoption of low break-even points, with their companion high marginal tax rates, a necessity. The special House Subcommittee on Welfare Reform was forced to permit states that supplemented benefits above the Federal minimum level to raise the benefit reduction rate — the marginal tax rate for welfare recipients — from the 52 percent ceiling in the original Carter plan to 70 percent. Despite prodigious efforts.

the Subcommittee was unable to free the basic means-tested welfare system from high marginal tax rates without raising the break-even point to an income level too high to be acceptable Forced by the Iron Law to make a choice they fell back upon high marginal rates.

A Radical Solution: Abolish Means-Tested Welfare

The preceding analysis suggests that the recent comprehensive welfare reform proposals are variants of a single unviable generic design means-tested family entitlements Even variants such as the negative income tax, which eliminate the problems associated with high marginal tax rates, suffer from other ailments arising out of their dependence on the means test In the case of the negative income tax for example, the complexity of determining eligibility and the incentives for concealment of income would be essentially the same as under the current system

It is thus evident that the only real solution to the problems of means-tested welfare for the working or work-eligible population is to simply do away with it. "Welfare" as we know it should be abolished for all but the non-working — the aged, blind, and disabled — whose eligibility can be ascertained by reference to physical characteristics.

This leaves us with some fundamental questions, however Do we as a nation want some kind of transfer payment program for the working population If so, how should such a system be structured?

Judging by the high level of government resources currently committed to income transfer programs, and the consistent efforts of the Federal government to expand coverage under these programs it is clear that there is an implicit consensus that transfer payments are appropriate for those with inadequate incomes

Just as clearly, there appears to be a consensus that this policy derives first and foremost from our desire to protect children Ensuring adequate income support for children is the focus of the AFDC program as well as the original guiding principle behind the establishment of the personal exemption in the Internal Revenue Code Unlike the many tax preferences subsequently added to the Code in lieu of reductions in the high marginal rates of the personal income tax the personal exemption was never a backdoor means of lowering marginal tax rates It was a Federal commitment to adequate resources for raising children

David A. Stockman

The effective support level provided by the combination of the transfer payment programs and the personal exemption varies, however, by income. The high marginal tax rates associated with the transfer payments quickly reduces the level of public support for each child, which is restored only very slowly as rising marginal personal income tax rates increase the value of the personal exemption. By putting in place a system of universal child payments, we could satisfy this fundamental desire of society to provide for the support of children, while simultaneously doing away with the problems associated with the means-tested welfare system. The universal child payment system would eliminate all of the problems associated with high marginal tax rates, since no change in income status would affect eligibility. It would eliminate all the administrative complexity of existing welfare programs, since the only determination necessary would be to identify the proper recipient for each child. Because it would replace both our existing AFDC transfer payment system and the personal exemption in the tax code, the net cost of a universal child benefit system could actually be less than the cost of the existing system.

In addition to the implicit desire to provide for children evident from our existing welfare and tax policies, there are other major policies in favor of income transfer that indicate that our society is not content to allow the market to allocate income without offering some buffer. First, there are explicit transfer payment programs directed at adults whose income falls below certain levels, such as food stamps and AFDU-U. More significant, there is the policy of redistribution implicit in the minimum wage laws, which prevents the market from valuing labor services below a level that provides a certain level of income with the intent of effecting a transfer of income within the market structure.

In combination, the overt transfer payment programs and the minimum wage laws have had devastating effects. The marginal tax rates of the overt programs result in tremendous work disincentives and the withdrawal of labor from the market. The minimum wage results in the foreclosing of job opportunities by preventing employers from hiring workers whose productivity cannot support a wage at the minimum statutory level.

Any program to repair or replace the existing benefit programs for a [illegible] will of necessity contain an element of income transfer

Perhaps the most likely candidate for a new mechanism for distributing benefits is some form of wage supplements implemented through a negative income tax withholding structure for low-wage workers

A tax credit of perhaps 20 percent of gross wages earned, provided to low-wage workers immediately through a negative withholding tax, and phased down to allow positive taxes only at a level above the normal entry level wages for unskilled and semi-skilled jobs, would have a strong work incentive effect. Such a system would, like the universal child payment, have many advantages. The system would impose a negative marginal tax rate at the lowest ranges of the wage scale, giving very strong work incentives, while simultaneously encouraging the largest possible number of workers to participate in the taxable labor market. The importance of drawing workers out of the underground labor market, in which transactions escape all taxation through the use of cash or barter arrangements, cannot be overstated. Some economists have estimated the total annual value of goods and services in the underground or black market at $100 billion.

The negative withholding system would also enable us to put a freeze on the minimum wage. This would in time significantly expand labor market opportunities for low-wage workers, without sacrificing society's desire to see that every worker disposes of some minimum level of income.

Because the negative withholding system would attach to the workers and not to the family unit, it would encourage more than one family member to enter the labor market. It would actually be to the advantage of the family to have two workers with nominal wages of $3.00 per hour instead of one worker earning $6.00 per hour. The increased labor market attachment for low income families that this would produce would improve their ability to weather job losses by individual family members. A related positive aspect of the negative withholding system would be its complete neutrality in affecting family behavior, since family status would be irrelevant to eligibility.

The most attractive alternatives for welfare reform available to us thus take cognizance of the plain fact of the matter: means-tested welfare is unworkable and harmful. By moving to systems such as the universal child payment and negative withholding, we can shape incentives at the margin that lead to higher labor output, greater family stability, and a lesser burden on the economy as a whole, while still meeting the unstated but implicit policy goals of providing a minimum standard of living for those who cannot achieve it without some form of assistance

WHY THE NEGATIVE INCOME TAX WON'T WORK

(*Source*: Thomas K. Hitch. Challenge, v. 14, July-August 1966: 13–15)

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Taxes always generate controversy. While the discussion has generally revolved around such things as rates, deductions and exemptions, a new dimension has recently been added: the negative income tax.

Within the past year both the Council of Economic Advisers and the Treasury have conducted staff studies on it: the Office of Economic Opportunity has endorsed the idea after a study by the University of Wisconsin's Robert Lampman; a recent member of the Council of Economic Advisers (Yale's James Tobin) has publicly endorsed it in a major article; and it has been mentioned favorably in publications of both The National Industrial Conference Board and the U.S. Department of Labor. In January, a study committee made up of 150 Democrats in the House of Representatives under the chairmanship of Rep. James H. Scheuer (D.-N.Y.) issued a report calling for the adoption of the negative income tax. And, more recently, the tripartite Presidential Commission on Automation has recommended it.

When people speak of a negative income tax, they are talking about an income tax in reverse. The income tax (positive) falls only on people who have incomes in excess of their permissible deductions, exemptions and credits. The income tax in reverse (negative) would call for a payment by the Treasury to people who have incomes that fall below some specified poverty level. The income tax would therefore operate in both directions: those with more than adequate income would pay it; those with barely adequate income would be left alone: and those with less than adequate income would receive payments from the government.

Assuming a national consensus that the poverty-stricken should be helped, what are the advantages of a cash rebate through the income tax mechanism over other ways of helping the poor? The alleged advantages fall into four classifications:

Equity.—As Joseph Kershaw, Research Director for the Office of Economic Opportunity, said, "The last two tax cut bills went right over the heads of the poor, simply because most of them don't pay taxes. Increasing deductions or exemptions wouldn't help our clients either. But a negative tax plan would be a sure way to help the poor."

Dignity.—General public assistance relief generally involves what many people think is a degrading and humiliating inquiry into the resources and needs of the applicant (the "needs test"). The receipt by the poor of a cash payment from the government as a matter of right would not involve this indignity and would not carry with it the stigma of "being on relief."

Motivation.—The relief recipient loses his relief when he no longer needs it. In fact, he loses whatever portion of it he no longer needs. It

Reproduced from: U.S. Congress. House. Resolved: that the Federal government should guarantee a minimum annual cash income to all citizens. House document no. 90-172, 90th Congress, 1st session. Washington, U.S. Govt. Print. Off., 1967. p. 137-141.

is claimed that he therefore is discouraged from taking a job and making some money because all this would do would be to reduce or eliminate his weekly relief check. Therefore, all the proponents of a negative income tax suggest a sliding scale of negative tax benefits; that is, as the income of the recipient increases, the negative tax benefit decreases, but to a lesser extent. Thus in one proposal that has been widely publicized, the family with no income would get $1,500, but if the family had an income of $500, it would get $1,125 for a total family income of $1,625, and if it had an income of $1,000, it would get $750 for a total of $1,750.

Efficiency.—It is claimed that the income tax, which is almost universal in its application, can easily and efficiently be extended to those who are too poor to have an income tax liability. The experience built up over the years in taxing people with adequate incomes can readily be extended to handle the job of determining the amount of negative tax that the Treasury should pay the poor. The income tax as a method of determining and making such payments, says Milton Friedman, "recommends itself on purely mechanical grounds."

Now let us look at the other side of the coin: What, if anything, is wrong with the concept of a negative income tax?

First, the negative income tax is a very frank and open device for taking money away from the rich and giving it to the poor. The next step could be to take it away from the fairly rich and give it to the fairly poor. And the next step could be to take it away from the upper middle income classes and give it to the lower middle income classes. I presume it is possible that this development would not occur, but since the vast majority of the electorate are and always will be below the average income level, most office seekers would be sorely tempted to recognize this fact in deciding the issues on which they would choose to campaign. This fact has become very evident in this country in the last 35 years.

Second, poverty is relative and very hard to define. The subsistence farmer may be living very well with a cash family income of less than $1,000 a year, while the unemployable Negro in Harlem might have great difficulty raising himself above the poverty line if he were given $2,000 a year. Poverty standards also vary widely on a geographical basis.

Third, although all negative income tax ~~proposals would reduce the~~ subsidy by less than any additions to earned income to provide an incentive to work, this would do little, if any, good for those who don't have much drive to work in the first place. Any person below the poverty line either can and will learn to earn a living (and he should be helped in every way possible) or he can't or won't. If he can't or won't, then the public assistance "needs test" is a better approach than a continuing cash subsidy from the government as a matter of right. After all, for those who can't or won't, the cash subsidy might quickly disappear and then general public assistance (needs test and all) would have to come to the rescue. Certainly there are a great many people below the poverty line who would be helped by a cash receipt from the government, but every social worker knows that there are also a great many who would rapidly dissipate this money and soon be right back where they were before.

To them the negative income tax would, in effect, say, "if you don't earn an adequate living, the government will give it to you—with no questions asked as to how much you need it or how you will spend it." In this connection I am reminded of an editorial some 20 years ago in "The Economist" (London) which discussed, under the title "The Carrot and the Stick," the inroads on work incentives that had taken place. "The whole drift of * * * society for two generations past has been to whittle away both at the carrot and the stick, until now very little of either is left." Another generation has passed since the editorial was written, and we have seen still further erosion.

But we have also seen in very recent years a new recognition of the power of the carrot (reduction in federal personal and corporate net income taxes). To propose a guaranteed income for everyone at a time when there is growing evidence that it would seriously reduce incentives to work and to advance is surely inappropriate. As Hubert H. Humphrey said recently ("The Record Upswing—It Didn't Just Happen!" Challenge, Nov.-Dec., 1965): "The job of eradicating poverty will be a long and difficult one because we cannot simply buy a new way of life for people. It is much more than just a question of money. We must re-educate, re-energize and reinspire them. To the extent that such constructive efforts can be implemented through economic resources, our society can and must make the investment." I agree, but the negative income tax hardly seems to be the proper approach.

So much for the pros and cons on the idea itself. There are forceful arguments for and against, so that reasonable men will be found on both sides of the issue. But when we come to the next question—is the income tax a suitable mechanism for getting money into the hands of the poverty-stricken?—there is only one answer. No.

The only jurisdiction that has so far adopted anything approaching the negative income tax is the State of Hawaii, which last year instituted a program of tax credits which, for a family of four with an income of less than $1,100, will result in a negative tax payment of $72. Hawaii's legislators were not contemplating wiping out poverty with this kind of payment; they were thinking about the relatively harsh way in which the retail sales tax treats the low-income family. This tax credit would, through the mechanism of the income tax, distribute some money to the poor to make up for the regressive impact of the sales tax.

Hawaii has had very little experience with this tax credit or with a similar program voted at the same time which grants tax credits (or negative tax payments) on a sliding income scale to families with children in school, kindergarten through college. But the experience it has had so far makes it quite clear that there is no way to draft legislation of this sort that will get the amount of money that is intended to the right people. Many very well-to-do families are qualifying for Hawaii's tax credits whereas many poor families are not—mainly because the income tax return of a person is a most unreliable measure of the income status of the family of which that person is a member.

These problems would be vastly enhanced at the national level with a negative income tax. Despite what its proponents say, the income tax is not a ready-made mechanism for distributing money to the poor, even if such a distribution were desirable. Its mechanics are completely unsuitable for three reasons, and these should be understood before the proposal is taken seriously.

Many types of income are not taxable and not reported on the income tax return—social security, unemployment and workmen's compensation benefits, public assistance payments, interest on tax-free securities, pensions and annuities, proceeds from life insurance, etc. Obviously, all these would have to be listed (as required by Hawaiian law) in a separate filing for those who might try to qualify for the tax rebate.

Once the rebate were big enough to do very much good to the poverty-stricken, and the Hawaii tax credit rebates are not, taxpayers would be tempted to drop wives and children as dependents and let them file separately. With little or no income, they would qualify for the rebate. For example, I would simply drop my three teen-age daughters as dependents (they all file income tax returns based either on modest summer earnings or on receipts from a small educational trust fund). Dropping them as dependents would cost me some $300 each in additional taxes, but with their insignificant income, they would be so far below the poverty line that they would each qualify for very much more than $300 under any of the negative income tax plans I have seen. Once wives and children could qualify for tax refunds if their incomes were low enough, then the number of people filing income tax returns would increase tremendously.

In short, there would have to be a personal examination of the income status of each person applying for a tax rebate—just as though he were applying for general public assistance. Thus one of the most important arguments of the proponents of the negative income tax (that it gets away from the degrading "needs test" of general public assistance relief) disappears.

For the poverty-stricken to be helped, they need the money now, not a rebate sometimes after next April 15 when they have filed their income tax. This means that there would be the further administrative complication of people having to decide in advance how low their incomes would be in the forthcoming year, filing preliminary, estimated returns, receiving their negative income tax rebates during the year and then making a final settlement with the government after the year was over.

This is done with a fair degree of accuracy by the regularly employed person, but since most low-income people have a greater and more unpredictable fluctuation in income than does the normal taxpayer, the final figures might be hard to predict. In all probability, the requirement of filing a preliminary return at the beginning of the year would, for people with little or no income, be an impossible chore. This means that many of the people who would need it the most wouldn't participate in the program because they wouldn't know how (as the government is discovering today in its efforts to enroll the poor elderly people in the voluntary doctor insurance plan of Medicare).

The poverty-stricken are people who either haven't filed income tax returns in the past or have only used the short form—which we have seen would not be enough. These people are generally uneducated, frequently illiterate, do not read the newspapers, have never consulted a tax attorney or accountant, and therefore simply wouldn't know about the program, and if they did know of it, wouldn't know how to go about participating in it.

Outside of turning every social worker into a tax consultant, it would seem that the only way of overcoming this problem would be for the government to give a specified sum of money (say $400 a year) to every person in the country and then get some of this money back through the regular income tax channels from those whose incomes are adequate.

This would be a massive transfer payment operation, since the money—to do any good for those who need it—would have to be paid out in monthly installments; this would mean nearly two and one-half billion check mailings a year, and the aggregate dollars disbursed (at $400 per person) would be over $78 billion.

Some difficulties might be overcome in part by modifying the tax rates, such as a fairly high tax rate on the first $400 of income in excess, say, of $1,500 for a single person and $3,000 for a taxpayer with four or more exemptions. But even this wouldn't solve the major problem of every low-income dependent becoming an independent taxpayer—which would involve millions of people and billions of dollars.

In short, while the objectives of the negative income tax are debatable enough, the proposed method of achieving these objectives is completely unworkable.

SOME BASIC PROBLEMS OF NEGATIVE INCOME TAXATION

(*Source:* William A. Klein,* Wisconsin Law Review, v. 1966, No. 3, Summer)

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Negative income taxation has promise of being the next phase of the gigantic attack on "want" being witnessed in the 1960's. In this article Professor Klein discusses the major features of the proposed plans in the framework of a comparison to existing or alternative welfare programs. He notes that negative income taxation represents an approach basically different than that taken in the past, but concludes that the advantages gained by this new method are largely dissipated by the fact that it will probably be used only as a supplement to present programs. Nevertheless, he finds that discussion of negative income taxation is useful for the purpose of raising important issues of tax and social policy.

Under recently proposed plans for "negative income taxation," the existing federal income tax mechanism would be used to distribute cash to poor people. The use of the federal tax system to accomplish this "welfare"[1] objective would be achieved, generally speaking, by assuming that a person's "income"—as defined in the Internal Revenue Code—is the proper measure of his economic well-being for the purpose of determining the amount of financial support he should receive. Given his premise, and given a decision as to what is a minimum tolerable "income," the role of government as bestower of cash benefits would become as relatively mechanical as its role as tax collector; individualized determinations by caseworkers would be avoided.[2] For example, if it were agreed that a minimum tolerable income for a family of two or more is 3,000 dollars per year,[3] and if the family's actual income were 1,400 dollars, then there would be a "negative income" of 1,600 dollars and the family would become entitled to a payment of some fixed percentage of that amount. The plan could be dovetailed even more closely with tax provisions by assuming that the minimum tolerable income (the "poverty line") is determined simply by reference to exemptions and deductions allowed under the Code. Thus, for a family of four the "poverty line" would be 3,000 dollars—four exemptions at 600 dollars each[4] plus a minimum standard deduction

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[1] Throughout this article I use the term "welfare" to refer to "pure" welfare in the sense of public charity, and do not include social security old-age pensions, workmen's compensation, unemployment compensation, protective legislation and so forth. On the question whether negative taxation should be called a welfare program see note 21 infra.

[2] This idea, which in my view suggests a prime objective of the proposal, is discussed further below. See pp. 792-96 infra. I do not mean to suggest that the same kind of change could not be achieved within the framework of existing welfare programs.

[3] U.S. Council of Economic Advisers, *Annual Report*, in ECONOMIC REPORT OF THE PRESIDENT 19, 58 (Jan. 1964).

[4] INT. REV. CODE *of* 1954, § 151.

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of 600 dollars.[5] For a family of five the figure would be 3,700 dollars, and so forth.

The purpose of this article is not to discuss in detail how negative income taxation might work or to analyze all the problems it raises, but rather to present its most significant features and effects in the context of a comparison with currently existing alternative programs for making payments to the poor. These comparisions are based on the general asumption that the negative income tax would make use of most of the basic rules of income determination and of administration now applied to taxpayers.

I. The Conflict Between Incentive and Welfare

As indicated above, the gap between actual income and the poverty line can be readily determined. One of the first questions then to be considered is, how much of this gap should be filled? This question raises one of the fundamental issues involved in negative income taxation and, indeed, in welfare legislation in general. The traditional assumption of most welfare law has been that all able-bodied persons should be prepared to support themselves by their own efforts to the maximum extent possible.[6] While there may be disagreement over the moral, ethical, or social value of this assumption, there can be little disagreement over the fact that it is justified for the immediately foreseeable future by the existence of unfilled public needs that assert compelling claims on tax revenues.[7] Accordingly, one of the principal tasks of any architect of welfare programs is to insure that not too many people quit their jobs and trade their wages for a "dole." This is a difficult task, because there are many heads of families today whose earnings fall below the poverty line,[8] and many more whose earnings are very little above that line.[9] One obvious way to insure continued effort at self-support on the part of such potential welfare recipients is to make eligibility for benefits dependent on proof either of their willingness to work, as with unemployment compensation,[10] or of their inability to work, as with disability insurance both under the Social Security Act [11] and under private plans. However, the proponents of negative income taxation reject this approach, presumably because they abhor the kind of policing institutions that it requires.[12] Accord-

[5] Int. Rev. Code of 1954, § 141(c). For a married couple filing a joint return the minimum standard deduction is a flat $200 plus $100 for each member of the family.

[6] For a recent manifestation of this attitude, bearing on aid to families with dependent children, see S. Rep. No. 165, 87th Cong., 1st Sess. 3 (1961): "Your committee believes that an unemployed individual whose family is receiving aid under this program should accept any reasonable offer of employment."

[7] See Keyserling, Book Review, N.Y. Times, Feb. 27, 1966, § 7, pt. 1, p. 1.

[8] It has been estimated that there were 7.2 million poor families (not including unattached individuals) in 1963, that in over half of these the family head currently had a full time or part-time job, and that in almost thirty percent of poor families the head had been employed full time for at least a year. Orshansky, *Counting the Poor: Another Look at the Poverty Profile*, 28 Social Security Bull. 3, 5, 18, 21 (1965).

[9] For the year 1963 there were 33,777,921 tax returns, constituting fifty three percent of all returns, reporting an adjusted gross income of less than $5,000 each. The total adjusted gross income reported on all these returns was almost $81 billion. U.S. Treasury Dep't, Internal Revenue Service, Statistics of Income for 1963 (Preliminary), Individual Income Tax Returns (1965). Of course, not all these returns were by heads of families, but no doubt a substantial part were.

[10] See, *e.g.*, Wis. Stat. § 108.04 (1963).

[11] 42 U.S.C. § 423(c)(2)(A) (Supp. 1965) makes eligibility for disability insurance benefits dependent on proof of "inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months."

[12] See Tobin, *Improving the Economic Status of the Negro*, 1965 Daedalus 878, 891.

ingly, if they want to keep poor people in the work force, they have no alternative but to preserve an adequate financial incentive to work. Unfortunately, however, preservation of incentive is incompatible with the achievement of an adequate level of welfare. This last proposition, which of course is vital, can be readily illustrated.

Under a plan proposed by Prof. Robert J. Lampman,[13] and earlier by Prof. Milton Friedman,[14] the rate of payment applied to the negative income would be fifty per cent.[15] This means that only half of the need would be met. It also means that for every dollar earned by the taxpayer his disposable income would be increased by fifty cents; in other words, the individual is ahead by only half of whatever he earns. Table 1 presents this plan more graphically. It demonstrates, for example, that if an individual earns 2,000 dollars, he will have disposable resources of 2,500 dollars, which is only 1,000 dollars more than if he had earned nothing.

TABLE 1 (LAMPMAN-FRIEDMAN)

Income	Subsidy	Tax[1]	Disposable resources
0	$1,500		$1,500
$1,000	1,000		2,000
1,500	750		2,250
2,000	500		2,500
2,500	250		2,750
3,000	0	0	3,000
4,000		$140	3,860

[1] At present basic rate of 14 percent.

Professor Lampman offers the rough estimate that, all other things being equal, his plan (which modifies the tax-law definition of income in certain ways that would reduce payments [16]) would cost the federal government about 8 billion dollars per year and save the states 3 billion dollars per year (in public assistance payments which the negative income tax would supplant) for a net cost of 5 billion dollars per year.[17]

As an alternative to the fifty per cent rate, it would be possible to make a payment in the entire amount of the negative income[18]—in other words, guarantee to everyone a certain minimum income (*e.g.*, 3,000 dollars for a family of four). This approach would have the virtue of insuring that no one would suffer severe material privation. But at the same time it would eliminate, for a large segment of the population,[19] any financial incentive to work.

Comparing the two approaches, it may be observed that the latter is preferable in terms of direct humanitarian objectives while the

[13] Lampman, Preliminary Report on a Plan for Negative Income Taxation 1965, at 2-4 (unpublished paper prepared for the Office of Research Plans, Programs and Evaluation, Office of Economic Opportunity). This paper expresses solely Professor Lampman's views, and is referred to with his permission.

[14] FRIEDMAN, CAPITALISM AND FREEDOM 191-92 (Phoenix ed. 1963). See also Wehrwein, *Economist Says Negative Tax Should Replace All Poverty Aid*, N.Y. Times, Dec. 19, 1965, p. 41, col. 2.

[15] The Office of Economic Opportunity has proposed a "foot in the door" rate of fourteen percent. Lofters, *Tax Aid to Poor Urged by Shriver*, N.Y. Times, Dec. 15, 1965, p. 1, col. 1 (city ed.).

[16] For example, by including social security retirement benefits in income for the purpose of computing negative income. See Lampman, *op. cit. supra* note 13, at 2.

[17] *Id.* at 8.

[18] See Reagan, *Washington Should Pay Taxes to the Poor*, N.Y. Times, Feb. 20, 1966, § 6 (Magazine), pp. 24, 84.

[19] See note 8 *supra*.

former is better in terms of preserving incentive to work. Under the Lampman-Friedman plan, the maximum payment (or "floor" on total resources) of 1,500 dollars meets only half of a family's presumed minimum needs. The "break-even point"—that is, the point at which no payment is made—is 3,000 dollars. Under all plans there is a fixed relationship between increases in earned income and decreases in payments: as earned income increases, payments decrease. This relationship may be called the "tax" rate, which describes the extent to which an individual's earnings fail to contribute to his financial betterment. A sixty per cent rate would mean that payments would be reduced by sixty per cent of earnings. The higher the "tax" rate, the less the financial incentive to work. Under the Lampman-Friedman plan the rate is fifty per cent.

Under the second plan described the maximum and the "break-even point" are both 3,000 dollars and the "tax" rate is 100 per cent. A comparison with the Lampman-Friedman plan illustrates the inexorable relationship between the maximum payment (representing the welfare or humanitarian goal) and the "tax" rate (representing the incentive or economic goal): the higher the maximum payment, the higher must be the rate of "tax" on earnings in order to "break even" (that is, make no payments) at any given point. Choices are limited. If one chooses a maximum payment ("floor") of 2,000 dollars and a "break-even point" of 3,000 dollars, then the "tax" rate must be sixty-six and two-thirds per cent (because an increase in income from zero to 3,000 dollars must be accompanied by a decrease in payments of 2,000 dollars). This is illustrated by Table 2.

TABLE 2

Income	Subsidy	Tax	Disposable resources
0	$2,000		$2,000
$1,000	1,333		2,333
2,000	666		2,666
3,000	0		3,000

If, on the other hand, it is decided that the maximum payment shall be 2,000 dollars and the "tax" rate shall be thirty-three and one-third per cent, then (because payments are reduced by only 333 dollars for every 1,000 dollars of income) the "break-even point" must be 6,000 dollars (which means that some payment will be made and no tax will be levied until family income reaches this point). See Table 3.

TABLE 3

Income	Subsidy	Tax	Disposable resources
0	$2,000		[illegible]
$1,000	1,666		[illegible]
2,000	1,333		[illegible]
3,000	1,000		[illegible]
4,000	666		4,666
5,000	333		5,333
6,000	0	[illegible]	[illegible]

This is the approach recommended by Yale economist James Tobin. Tobin supra note 12.

It can readily be seen that there is an infinite variety of combinations of (a) maximum payment, (b) rate of "tax" (including various sliding scales [21]), and (c) "break-even points." If it is assumed, however, that cost considerations at the present time dictate a fairly low "break-even point," [22] then the conflict between welfare (dictating a high maximum) and incentive (dictating a low "tax" rate) cannot be avoided.[23] Negative income tax proposals tend to resolve this conflict in favor of preserving incentive, while existing welfare programs tend to resolve it in favor of the welfare objective.

II. Basic Changes in Approach to Welfare

Given the limitations imposed by considerations of cost and incentive, it is reasonably clear that negative income taxation cannot provide adequately for all the needs of potential welfare recipients. It is no panacea. At the same time it may well be a useful weapon, along with others, in the "war on poverty," and may advantageously supplant some existing programs in whole or in part. Thus a comparative appraisal becomes necessary.

A. *Minimization of Cost*

In comparing negative taxation with other devices for relieving poverty, one of the basic issues that must be considered is how good a job the negative tax does of insuring that payments will go to people who are needy and only to such people. In terms of providing some help to all people who are in fact needy, the negative tax would appear to rate highly—at least if it is assumed (a) that a procedure can be developed to permit current payments, instead of waiting for a year-end tax return, and (b) that the task of claiming benefits will present no more of an obstacle to potential claimants than does the task of claiming present-day welfare benefits. On the other hand, the negative tax raises some very serious problems, to say the least, when

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[21] See Reagan, *supra* note 18, at 88.

[22] Under a plan with a "break-even point" of $6,000, payments would be made to, and no tax collected from, a substantial number of present-day taxpayers. Moreover, as students of taxation are frequently reminded, the higher the amount of exempt income, the higher must be the *rate* of taxation to collect a given amount of revenue from individuals with incomes above the exemption level. For example, if it is decided that a man with an income of $10,000 should pay taxes of $2,000, then the tax rate must be fifty percent if the exemption is $6,000, while it need be only twenty-five percent if the exemption is $2,000.

[23] It may be argued that negative income taxation should not be thought of as a "welfare program." To the extent that the phrase is regarded as disparaging, I agree, as to this program and as to all other programs designed to distribute material benefits to poor people. I intend no such connotation. Putting aside that quibble, "welfare" seems for present purposes the best shorthand description of the principal objective served by the negative tax. The principal focus of the plans that have been proposed is on the problems of people below the poverty line. To argue that aid to families with dependent children is a welfare program but negative income taxation is not seems disingenuous. I would be willing to search for a new label for each, if that would save recipients any embarrassment, but not for just one. It is true that a plan like Tobin's, see note 12 *supra*, would redistribute income to the not-so-poor, but allowing that incidental goal or effect to dictate classification would be letting the tail wag the dog.

It may also be worth noting that negative income tax plans can be conceived of in "social dividend" terms—that is, they can be conceived of as plans under which a certain amount of money ($1,500 for the Lampman-Friedman plan and $2,000 for the Tobin plan) is paid or allotted to *all* families and then offset by taxes. The net effect is the same either way, although a proponent of the "social dividend" approach is not likely to suggest taxing very low incomes at as high a rate as would a proponent of negative income taxation. See E. Burns, *Social Security in Evolution: Towards What?*, in Industrial Relations Research Ass'n, Proceedings of the Seventeenth Annual Meeting 21 (1964); C. Green, Transfer-By-Taxation: An Approach to Improved Income Maintenance, 1966, at 92-108 (unpublished Ph. D. thesis in University of Wisconsin Library). See also Theobald, Free Men and Free Markets 192-97 (1963); McLarty, *In Simplicity?*, 13 Canadian Tax J. 235, 236-37 (1965); D. Smith, *A Simplified Approach to Social Welfare*, 13 Canadian Tax J. 260 (1965).

we ask how good a job it does of denying payments to people who do not need them. It should be noted parenthetically that to discuss this last proposition is not to imply that minimization of direct costs by limiting payments to the needy is the only goal of a good welfare program. Efficiency of administration, fairness, preservation of individual dignity,[24] and other objectives must be considered as well, and the accomplishment of these objectives may in fact preclude minimization of direct costs. However, as long as unlimited funds are not available and as long as there are alternative devices for distributing those funds, such minimization does seem a relevant consideration. And certainly if the total fund available for distribution is regarded as more or less fixed in amount regardless of the manner of distribution and if that fund is not adequate to meet all needs, any significant diversion of benefits from needy to nonneedy persons is a matter of very serious humanitarian concern.

1. Capital assets

One reason why negative income taxation may be thought to do a bad job of minimizing cost by denying payments to people who are not in need is that our income tax system does not take account of wealth as such. Thus, it would be possible for a person to have substantial assets and still have a negative income entitling him to payments. For example, a man disabled and deprived of income from work for a year or so might have savings on which he could live. Similarly, an elderly couple might have a house plus modest savings but very little cash income. To be sure, in such cases it might well be argued that payments under the negative tax would be justified, or at least not objectionable. This is particularly so in light of the fact that the problem is probably not one of serious magnitude: very few low-income people have significant amounts of assets.[25] The elimination of any exhaustion-of-assets requirement not only would remove an element of harshness from the welfare system, but also would eliminate a rule whose unpopularity can be expected to result in avoidance efforts—that is to say, cheating—of a serious magnitude. Such cheating could be fairly difficult to detect. If the assets are modest in amount, it is possible that they could be concealed fairly easily, or they might be transferred to children or other relatives or friends in contemplation of a claim for welfare status.[26] Since the temptation and opportunity for cheating seems great, any serious effort to enforce the statutory requirement would probably have to be based on the assumption that all claimants are potential liars. Suspicious interrogation and investigation would thus be largely unavoidable and all but the most insensitive claimants would be likely to perceive the enforcement effort as oppressive and "degrading."

The unpopularity of the exhaustion-of-assets requirement was demonstrated recently in debates over medical care for the aged and in the

[24] See p. 798 *infra*.
[25] U.S. Council of Economic Advisers, *supra* note 3, at 67, 81.
[26] This problem has been regarded as sufficiently serious to generate legislation designed to invalidate such transfers. See, *e.g.*, Wis. Stat. § 49.22(1)(c) (1963). The Wisconsin Department of Public Welfare has prescribed elaborate procedures for detecting transfers covered by the Statute. Div. of Public Assistance, Wis. Dep't of Public Welfare County Manual, at III 18 (Revised Sept. 27, 1963).

eventual rejection of any "means" test in favor of "insurance."[27] On the other hand, the unwillingness of Congress to abandon such an approach completely—at least as to "welfare" programs—was reflected even more recently in its refusal to appropriate money for the rent subsidy program, after it had been noted with surprise and chagrin that a person could receive a rent subsidy even though he had substantial assets.[28] Thus are revealed some of the conflicting strains underlying our approach to welfare problems. The negative income tax chooses the approach that is far more palatable to welfare recipients, and thus sacrifices the goal of cost minimization.

Even if it were agreed that certain capital assets, like savings accounts, homes, and so forth, should be disregarded for purposes of the negative tax, by no means all of the problems of the proper treatment of wealth would be resolved. There would remain the closely related problem of capital assets that are returned to the individual in the form of periodic payments. Should the fact that wealth has been transformed into a right to periodic payments make a difference? Of course it is unlikely that many of the people who would fall below the poverty line as defined by any negative tax plan would be beneficiaries of private annuities, but what about pension plans to which employees have contributed? To the extent of previously taxed employee contributions, these must be treated like annuities; they constitute a return of capital or wealth. And what about payments to retired persons under the Social Security Act? If such payments, presently excluded from income,[29] were brought back into income for purposes of the negative tax,[30] then what about that portion of such payments which could be regarded as attributable to employee contributions? Should these amounts be regarded as a return of capital? If so, must they be disregarded under the negative tax as long as all other forms of capital are disregarded?

It may well be that agreement could be reached to adhere closely to existing concepts of taxation of income and to accept the consequence of some payments to people not really in "need" in the traditional sense. But to make payments to such people is to depart substantially from the premises of existing welfare programs.[31] Perhaps even more importantly, were we willing to ignore wealth in making determinations of eligibility for welfare benefits, then a good deal of the basis for objecting to existing programs, and for hesitating to accomplish our welfare objectives by expanding them, would disappear, because the requirement that a welfare recipient exhaust his own assets before turning to the public for help, together with the policing problems that such a requirement seems to present, has been one of the most serious sources of criticism of many existing programs.

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[27] See Morris, *President Signs Medicare Bill; Praises Truman*, N.Y. Times, July 31, 1965, p. 1, col. 1; *Transcript of Remarks by Truman and Johnson on Medicare*, *id.* at 9, col. 1. The bill enacting Medicare did, however, contain another provision expanding federal support for state programs of medical aid to the needy nonaged. *Digest of New Social Security Law*, *id.* at 8, cols. 2, 4.

[28] See Pomfret, *Johnson Renews Rent Subsidy Bid*, N.Y. Times, Feb. 15, 1966, p. 1, col. 4, p. 22, col. 7 (city ed.); N.Y. Times, Feb. 2, 1966, p. 20, col. 7 (city ed.).

[29] I.T. 3447, 1941-1 Cum. Bull. 191.

[30] Lampman, *op. cit. supra* note 13, at 2, would include such payments in income, whereas Tobin, *supra* note 12, at 892, would make OASDI beneficiaries ineligible for payments under the negative tax.

[31] It should be recalled that the term "welfare program," as used in this article, does not include any of the insurance programs. See note 1 *supra*.

2. *The definition of "income"*

Further problems are raised by the extreme liberality that Congress has demonstrated in allowing exemptions, deductions, exclusions, and credits in the existing tax structure. The result is that "income" for tax purposes is only a distant cousin of "income" in an economic sense. Differences resulting from certain business deductions—like the oil depletion allowance,[32] accelerated depreciation,[33] and the investment credit [34]—are probably not worth worrying about since only rarely would they reduce income below the poverty line. The prospect of a Texas oilman receiving a welfare payment, while it seems ludicrous, does however serve to dramatize a more general phenomenon. The fact is that a "welfare" payment made to such a person is different more in appearance than in reality from the benefit presently bestowed under our income tax law. Money that the oil man is ahead by virtue of an extra-generous depletion allowance is worth just as much to him, and costs other taxpayers just as much in additional burden, as money that he would be ahead by virtue of a payment under the negative income tax. Similarly, if a taxpayer has an income of 5,000 dollars per year and is over sixty-five years old, the 100 dollars or so that he saves by virtue of his extra exemption [35] is worth just as much to him, costs the rest of us just as much, and has no more apparent justification than a cash payment to the same man under the negative income tax. Yet it seems very unlikely that the public would perceive the identity of result and treat the cash payment with the same apathy that it has bestowed upon provisions that "merely" reduce tax liability.

Like the problems raised by business deductions, the problems raised by personal deductions and by exclusions are not likely to be serious in magnitude, though every year there would undoubtedly be some fairly well-to-do people whose income for tax purposes would fall below the poverty line because of an extraordinary casualty loss [36] or medical expense [37] or because they received only tax-exempt interest [38] or payments on a personal injury judgment.[39] Of far more serious consequence, however, are the problems raised by cash receipts such as social security payments,[40] various forms of public and private assistance,[41] children's wages under 600 dollars, certain support payments pursuant to a divorce,[42] regularly recurring gifts and voluntary private support payments,[43] and scholarships,[44] as well as the extra exemptions for blindness [45] and for being over sixty-five.[46] A further source of serious concern is imputed income in the form of the rental value of owner-occupied homes and the value of homegrown food on

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[32] INT. REV. CODE OF 1954, §§ 611–14.
[33] INT. REV. CODE OF 1954, § 167(b).
[34] INT. REV. CODE OF 1954, §§ 38, 40.
[35] INT. REV. CODE OF 1954, § 151(e).
[36] Allowed as a deduction under INT. REV. CODE OF 1954, § 165(c).
[37] Allowed as a deduction under INT. REV. CODE OF 1954, § 213, subject to certain limitations.
[38] Excluded from income under INT. REV. CODE OF 1954, § 103.
[39] Excluded from income under INT. REV. CODE OF 1954, § 104(a).
[40] See note 29 supra.
[41] For a collection of rulings excluding such payments from income, see United States v. Kaiser, 363 U.S. 299, 317–25 (1960) (concurring opinion).
[42] INT. REV. CODE OF 1954, § 71(b).
[43] Such support payments would normally be treated as gifts and excluded from income under INT. REV. CODE OF 1954, § 102.
[44] Excluded under INT. REV. CODE OF 1954, § 117.
[45] INT. REV. CODE OF 1954, § 151(d).
[46] INT. REV. CODE OF 1954, § 151(c).

farms, as well as the related problem of regional differences in cost of living.[47] And finally there are all the vexing problems raised by asking which members of a family are entitled to file separate returns, or, more broadly, when the income of one person should be attributed to another person or to a taxable unit such as the family.[48]

Presumably all of these problems could be solved, though again not without considerable difficulty. The point is that the present income tax law does not provide a ready-made device that is entirely suitable for accomplishing welfare goals. What is perhaps even more basic is the thought that whatever could be accomplished by modifying the definition of income under our tax law to make it conform more closely to present-day welfare criteria could also be accomplished, perhaps more readily, by modifying our welfare law and institutions to make them conform more closely to those features of our tax system that are referred to hereinafter.

3. Responsibility of relatives

The goal of cost minimization is reflected in one other basic feature of current welfare programs—the requirement that certain relatives contribute to the support of welfare recipients and thereby reduce the burden of the public at large.[49] Given the diminishing significance of family ties in contemporary society, and the increasingly significant role of government welfare programs, public support for this requirement may ultimately become difficult to muster.[50] Undoubtedly there are circumstances in which most people would agree that the enforcement of a flat rule that an individual must support certain relatives would be unjust—as, for example, a requirement that a child support a father who had permanently deserted the family before the child's birth and had never contributed to its support.[51] But the objections to the requirement of support by relatives seem to stem not only from the idea that the requirements may be unjust or unwise but also from the conclusion that problems of enforcement are so serious as to outweigh any financial or moral gains.

It can readily be imagined that forcing any unwilling person to contribute to the support of a relative will be difficult, and potentially embarrassing to the relative on the receiving end, but the most severe problems seem to have arisen in seeking support from absent husbands. At first blush it might seem that enforcing a husband's obligation of support could hardly be objectionable. In practice, however, certain presumably unanticipated "side effects" have proved quite offensive. These "side effects" are a product of the fact that once it is decided that the absent husband does have a continuing obligation of support, efforts must be made to enforce the obligation. Otherwise the recalcitrant, irresponsible husband will be better off (financially, at least)

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[47] See Orshansky, *supra* note 8, at 10.

[48] See note 55 *infra*.

[49] See tenBroek, *California's Dual System of Family Law: Its Origin, Development, and Present Status*, 17 STAN. L. REV. 614 (1965).

[50] TenBroek presents some strong arguments for abandoning relative responsibility completely. He also discusses the case of Department of Mental Hygiene v. Kirchner, 60 Cal. 2d 716, 36 Cal. Rptr. 488, 388 P. 2d 720 (1964), *vacated and remanded*, 380 U.S. 194 (1965), which held unconstitutional a requirement that a daughter support a mother confined in a state mental institution, but which seemed to have much broader applicability. See tenBroek, *supra* note 49, at 618–58.

[51] Under Wisconsin law this circumstance apparently would not relieve the child of his statutory duty of support. See WIS. STAT. § 52.01 (1963).

than his compliant counterpart. The so-called Noleo Amendment of the federal AFDC statute requires that the states "provide for prompt notice to appropriate law-enforcement officials of the furnishing of aid to families with dependent children in respect of a child who has been deserted or abandoned by a parent."[52] This provision is hardly likely to improve whatever chances there might have been for reconciliation.[53] In addition, several states have adopted the further requirement that the wife co-operate with the state authorities in pursuing all legal remedies against the husband.[54] In many instances the wife may be reluctant to offer such assistance because she regards the effort as futile and distasteful or because she fears retaliatory action, but the law makes continued receipt of benefits dependent on her co-operation. Since the receipt of benefits may represent the difference virtually between life and death, the wife may have no choice but to pursue a course of action that is highly repugnant to her. Anyone who views this kind of situation with sympathy for the wife's best interests is likely to react strongly against the basic rule that led to her unfortunate position. Negative income taxation could supplant existing rules of relative responsibility and adopt new answers to the question of who should bear what burdens of support.[55] Presumably, however, this would at the same time make desertion somewhat easier for husbands.

B. Local Responsibility and Residence Requirements

The welfare system in this country has in the past been based on a pattern that includes a high degree of local responsibility and control.[56] This means that to a considerable extent the level of aid has been permitted to vary from one locality to another according to the resources, experience, sense of responsibility, wisdom, prejudice, and so forth of local constituencies. The result of such diversity, of course, is that in certain localities benefits will be lower and more grudgingly available than would be regarded as tolerable in other areas. It also means that in some areas benefits will be higher and administration more compassionate than would be the case if standards had to be agreed upon at a national level. This opportunity for diversity—in welfare as in education, road building, and all sorts of other government programs—is simply a characteristic of federalism.

Our concept of local responsibility as thus shaped raises the practical problem of competitiveness with respect to tax rates. If a high

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[52] Act of Aug. 28, 1950, ch. 809, 64 Stat. 549, 558, 42 U.S.C. § 602(a)(10) (1964).

[53] See McKeany, The Absent Father and Public Policy in the Program of Aid to Dependent Children 64–67 (1960).

[54] See id. at 55–60; tenBroek, supra note 49, at 661.

[55] The question is posed under negative income taxation by asking which individuals would be permitted to file separate returns, claiming little [illegible] income and a consequent entitlement to payments. In the absence of [illegible] the young child of a wealthy taxpayer could file his own no-income return [illegible] include parents living in the homes of adult children and children [illegible] appear to be too difficult to devise rules for dealing with these pr[illegible] supra note 15, at 2, though the choice of rules must reflect [illegible] fundamental issues.

More serious problems are raised by asking [illegible] should be allowed to file a separate return. Only when the [illegible] will desertion be defined and verified? And it may not be [illegible] to define the term "wife"—that is, to determine when [illegible] terminated. See tenBroek, supra note 49, at 617–21.

These [illegible] are closely related to but perhaps [illegible] than, those that are now raised by asking what is the proper unit for tax purposes? See Groves, Federal Tax Treatment of the Family (1963).

[56] This pattern has been altered by programs like OASDI and Medicare, which take certain potential poverty problems out of the "welfare" field.

level of welfare benefits is permitted to attract to one area the welfare recipients of another area, the taxes in the first area must rise, industry may be driven away, and a downward spiral of increasing taxes and fleeing industries may result. Or at least there might be a reasonable basis for fear of such a result. The solution is either to lower benefits or limit them to long-term residents. Choosing the latter alternative will result in inevitable hardship to some transient paupers as well as serious problems of implementation.[57] The negative income tax, like any other national program financed by federal taxes, would eliminate most of these kinds of problems. It would do so, however, only by rejecting much of what is left of the notion that even within the boundaries of this country responsibility for relief of poverty becomes greater as the problem comes closer to home. This is not the place to debate the merits of such a choice, but it does seem appropriate to point out that such a fundamental value choice is in fact the consequence of adoption of the negative tax.

C. Paternalism

Social welfare workers of various types are trained to help people by offering "expert" advice about marital problems, employment and training opportunities, mental health, budget management, cooking and sewing, and many other "personal" matters. A vital question posed by the existence of such a group of potentially helpful and presumably dedicated people is whom should they help and in what circumstances? Many of us doubtless could benefit from informed counseling as to various aspects of our personal lives. At the same time we might be reluctant to seek or accept help or be ignorant of its availability. One conceivable response to these facts would be the creation of a system in which each citizen is visited periodically by a government-employed social worker who would inquire into the individual's personal life, determine whether any kind of counseling or other services were needed, and offer advice about the availability of such services. Such an approach could be reinforced by making certain financial benefits—such as the 600 dollar personal exemption under the federal income tax—dependent upon "co-operation" with the worker. This kind of unsolicited intrusion into personal lives might produce substantial benefits, but generally such benefits are not deemed nearly adequate to justify a limitation on privacy and independence that seems incompatible with our notions of the proper role of government in our free society. The fact is, however, that the kind of paternalistic governmental role just described seems to be a predominant and widely accepted characteristic of existing welfare programs in this country.[58] For example, the manual for public assistance promulgated by the Wisconsin Department of Public Welfare contains the following statements in its introduction:

> Public assistance is a program which provides financial and social services . . . . The service objective is to assist the client to realize his maximum capacities, thereby gaining a more productive, satisfying life and making some contribution to society. The public assistance setting provides a unique opportunity

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[57] See Reich, *Individual Rights and Social Welfare—The Emerging Legal Issues*, 74 YALE L.J. 1245, 1248–49 (1965).

[58] See Handler & Rosenheim, *Privacy and Governmental Welfare Programs*, prepared for the Spring 1966 issue of *Law and Contemporary Problems*. See also Keith Lucas, *The Political Theory Implicit in Social Casework Theory*, 47 AM. POL. SCI. REV. 1076 (1953).

for social services, i.e., assisting clients to meet their personal and social needs * * *. Most families and individuals come to the county welfare department for financial assistance, but frequently this need is a symptom of the client's inability to function without outside help * * *."

It seems safe to say that this quotation reflects the following attitudes and assumptions: that welfare clients often have personal problems that they cannot cope with; that they can be helped to solve those problems; that they might not be capable of seeking appropriate help on their own; and that the fact of their financial dependency justifies an active role by a government agency in examining the question of need for services and in offering, or even urging the acceptance of, such services. In a sense these are very humanitarian assumptions: they tend to insure that no poor person's nonfinancial problems will be ignored. But they are also clearly paternalistic.

The broad reach of this paternalism on the part of government is illustrated by the activities expected of a caseworker in Wisconsin. For example, in connection with enforcing the requirement that relatives of welfare clients contribute to their support, the caseworker is instructed that "although a relative may be unable to make a financial contribution, it is important to explain [to him] * * * that he may be able to offer * * * visits, letters, and other indications of continuing interest in the recipient * * *."[60] Similarly, the caseworker is advised that, incident to the job of providing financial assistance, he is responsible for "recognizing what services a father needs and referring him to and supporting him in the use of community resources, such as clinics for alcoholics, vocational rehabilitation agencies, etc. * * *."[61] Lest the caseworker misunderstand his role, he is further instructed that he "must help the father to feel that he is or can be essential to strentghening family life * * *" and must help him to "understand his responsibility to the family."[62]

The extent to which the welfare recipient is—or feels that he is—coerced into accepting the advice of his caseworker cannot be determined so readily. It can be noted, however, that welfare departments have very broad discretion in awarding aid and in varying the amount to meet special needs; that to many recipients the caseworker may be the embodiment of power and authority; and that caseworkers and their supervisors are likely to be convinced that the services offered are ones that are badly needed. In addition, the welfare recipient's failure to accept services might induce the caseworker to invoke, or threaten to invoke, certain statutory provisions that the recipient would probably find highly objectionable. For example, the Wisconsin statutes pr[illegible]le that "the county agency may require the mother to do such remunerative work as in its judgment she can do without detriment to her health or the neglect of her children or her home * * *."[63] For the mother who considers that her full-time presence in the home is vital to the happiness and well-being of her children, a threat to invoke this provision would be a very powerful weapon in the hands of the caseworker, and one can readily imagine a situation in which the caseworker in all good faith might consider

[59] See Div. of Public Assistance, Wis. Dep't of Public Welfare, County Manual, at I 1 (Revised Sept. 27, 1963).
[60] Id. at III 31.
[61] Id. at III-35.
[62] Ibid.
[63] Wis. Stat. § 49.19(6) (1963). See Handler, Controlling Behavior in Welfare Administration, at 20 23, a paper prepared for the Conference on the Law of the Poor, University of California, Berkeley, Feb. 17-19, 1966, to be published in the California Law Review.

that, unless the mother accepted certain instruction or advice about running her home, it would be better for her—and for her family—if she were out working.

The net effect of all this is that for better or worse a class distinction has been created: the dependent poor must accept a pattern of governmental interference (or potential interference) with their personal lives that the rest of us presumably would not be willing or required to tolerate. The question whether such interference is justified depends in part on the validity of the assumptions mentioned above concerning whether the poor can be relied upon to solve their own problems. It depends as well on the extent to which the poor are aware of and resent the interference and the class distinction, on the alternatives that are available for bringing services to those who need them, and on the importance attached to equality and individual self-determination. What must be recognized is the implicit judgment that the poor as a class are inferior to the rest of us in terms of their ability to cope with their nonfinancial problems.

Adoption of the negative income tax would not mean abandonment of counseling and the other services of government agencies. Such services would continue to be available, but at least under the negative tax programs as presently conceived they would not be foisted upon the poor. Indeed, services may become more readily available as social workers are relieved of the time-consuming policing tasks now assigned to them. Whether such a change would alter substantially the actual use of such services, and whether such a change would be for better or worse, are issues that any proponent of change should consider.

Somewhat related to the notion that a welfare recipient is expected to accept supervision and counseling is the further belief that he cannot be relied upon to administer his own benefit program. While our tax system is based upon the assumption that taxpayers should assess their own liability or freedom from liability, subject to spot checking, our welfare system is based on the assumption that entitlement to benefits must be determined by a representative of government in the first instance. In part the welfare approach is a product of the fact that welfare benefits are meager and the eligibility requirements therefore necessarily harsh. The temptation to cheat—indeed, the need to do so—may be great. Moreover, with benefits so low frequent readjustments may be necessary in order to prevent small changes in circumstances from causing intolerable privation, and it may well be more convenient and expeditious for the client to consult with a caseworker about such changes than to file a set of forms and wait for action. In fact, it is questionable whether the Internal Revenue Service could adapt itself so that payments under the negative income tax could be made sufficiently current to recognize that people who are deprived of their income may need payments immediately, not at the end of the year or even at the end of the month.[44] In spite of all of this, the fact

[44] The administrative problems suggested by this observation are by no means minor. Payments would have to be readjusted more often than annually in order to accord with current entitlement. Otherwise, either too little would be paid with obvious consequences to the individual's welfare, or too much would be paid and there would have to be some sort of recoupment later, which might constitute a crushing burden on a very poor individual. The Social Security Administration has similar problems with respect to persons who are receiving OASDI benefits and whose income rises above permissible limits. The number of such cases is likely to be relatively small, however, in comparison to the number of cases that would require frequent adjustments under negative income taxation. It is not essential that the Internal Revenue Service administer the negative tax payments, and these administrative problems may suggest the advisability of using some other agency to perform that function.

is that welfare recipients are denied the sense of self-reliance and trustworthiness that is accorded to taxpayers.

These aspects of our current welfare institutions could be changed without changing its structure—without, for example, making the radical departure that is involved in adopting a negative income tax. Welfare codes could be revised to provide that the sole function of the caseworker would be to determine need and that it is no business of his to counsel or supervise the client in any way. A self-assessment system could be adopted, as has been done recently in New York.[65] Changing the basic characteristics of an entrenched system could be very difficult, however, and it might appear that the same changes can be accomplished more quickly and completely by replacing the present system with negative income taxation. But such a course could represent the height of foolhardiness. The existing structure is a very complex product of the accretions of many generations of legislative and administrative experience and activity. This is not surprising. Complex, changing social problems are not solved by the once-and-for-all adoption of simple (or even elaborate) rules. To make changes within the context of such a system, one must first undertake the forbidding task of acquiring an understanding of it. Yet the system may still contain, or appear to contain, anachronisms and inconsistencies. It is tempting to suppose that the inertia and opposition generated by an entrenched bureaucracy can be avoided, along with the task of acquiring expertise, by approaching the problem from an entirely new angle. This is essentially what the negative tax would do. But a course as radical as this is bound to be dangerous, since prediction of all the ultimate consequences of change is virtually impossible. The line between excessive timidity and justifiable caution may be difficult to find.

D. Articulation of Rules

From the perspective of a lawyer, and of a tax lawyer in particular, one very interesting and significant aspect of our present approach to welfare (not including "insurance" programs) is the vagueness of the statutory rules governing eligibility for payments, and the high degree of discretion thereby delegated to administrators. For example, the federal legislation establishing the program of aid to families with dependent children (AFDC) requires that the states, as a condition of receiving federal funds, submit a "plan for aid and services to *needy* families with children."[66] The term "needy" is not defined, although the statute does state that the plan must "provide that the State agency shall, in determining need, take into consideration any other income and resources * * * as well as any expenses reasonably attributable to the earning of any such income."[67] The Wisconsin statute implementing the AFDC program can hardly be thought to go much further. It provides that "the amount granted shall be determined by a [standard] budget for the family in which all income [with certain insignificant exceptions] * * * as well as expenses shall be considered."[68] The vast power delegated to the ad-

[65] See Jaffe, *Relief Test Here Will Be Dropped*, N.Y. Times, March 10, 1966, p. 1, col. 1, p. 26, col. 2 (city ed.).
[66] 42 U.S.C. § 602 (1964).
[67] 42 U.S.C. § 602(7) (1964).
[68] Wis. Stat. § 49.19(5) (1963).

ministering agencies, and their employees, by such a provision is clear. As if that were not enough, there is another provision which reads, "Whenever better provisions, public or private, can be made for the care of such dependent child, aid under this section shall cease,"[69] and still another that requires that the recipient be a "fit and proper" person to have "care and custody of [the] * * * dependent child."[70]

To observe that the statutory language imposes little constraint on the exercise of power by the administering agencies is not to imply that there are no other constraints. There must be some operating rules—published or unpublished—both at the federal level[71] and at the state and local levels.[72] Presumably these rules must fall within a range of alternatives not so outlandish as to provoke legislative demand for change.[73] In addition there are the constraints imposed by community pressures and probably by the simple fact of the professional status of the persons responsible for drafting rules and regulations. From the standpoint of the potential welfare recipient, and the lower-level agency employee, such rules may be indistinguishable in effect from rules prescribed by statute.

In spite of the development of such rules, and of procedures for enforcing them, much discretion is left in the hands of caseworkers and their supervisors.[74] In Wisconsin, for example, it is true that the rules and guidelines published by the Department of Public Welfare go a long way toward eliminating the vagueness of the statute. For instance, they contain a chart that specifies the dollar amounts of monthly cash allowances to cover food, clothing, personal, and household expenses of each member of the family. The allowances vary according to each member's age, sex, degree of physical activity, and employment status as well as according to the total number of persons in the household.[75] On the other hand, there are many matters as to which such specificity and objectivity are absent. With respect to a mother's duty to seek employment, the regulations provide as follows:

> Planning for employment with a mother receiving assistance in behalf of dependent children requires careful evaluation of the needs of the children, in addition to facts regarding the woman's preparation for employment, her interest in self-support, and current job opportunities. Some children require a mother's continuous presence in the home. Others are better off under supervision of a good substitute parent part of the day.[76]

Similarly, in determining whether a client should receive money for special needs such as a new dress for a child to wear to her graduation ceremony, the caseworker has little formal guidance other than the statement that "careful consideration [shall be given to] * * * the circumstances of each client."[77] Thus as to some issues

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[69] WIS. STAT. § 49.19(4)(f) (1963).
[70] WIS. STAT. § 49.19(4)(c) (1963).
[71] The United States Department of Health, Education, and Welfare does in fact publish a voluminous set of regulations entitled *Handbook of Public Assistance Administration*.
[72] In Wisconsin welfare programs are administered at the county level subject to state supervision. See Handler, *supra* note 63, at 19-20, 23.
[73] The Wisconsin Department of Public Welfare does publish regulations. See note 26 *supra*. Published rules are, of course, more susceptible to legislative supervision than unpublished ones. It may be naive, however, to assume that all the rules promulgated at the state level are followed at the county level.
[74] Professor Handler points out that the county welfare director has a good deal of power and that "his style of leadership, both in philosophy and in administration, will largely determine the content of the [AFDC] program." Handler, *supra* note 63, at 34.
[75] DIV. OF PUBLIC ASSISTANCE, WIS. DEP'T OF PUBLIC WELFARE, COUNTY MANUAL, at III-64 (Revised Sept. 27, 1963).
[76] *Id.* at III-46.
[77] *Id.* at III-62. See *id.* at III-68, III-84.

the case worker has considerable leeway and consequent power over the client. Moreover, this power relates to matters that can be of very vital personal concern to the client. A negative income tax would tend to minimize, if not eliminate, such power since the tax code is generally quite specific and objective, at least with respect to matters of concern to low-income taxpayers. It would probably be unthinkable, for example, for the tax law to provide for "such deductions and exclusions as seem appropriate in measuring the individual's taxpaying capacity."[78] There are, to be sure, some significant tax provisions that are quite vague: the deduction for "ordinary and necessary" expenses is a good illustration.[79] This vagueness has, not surprisingly, given rise to disputes.[80] But such disputes normally will not involve poor people and the people who will be involved are likely to be well qualified to protect their own interests. The courts stand ready to help. And in any event the denial of a deduction of a business expense is hardly likely to have the same grave personal consequences as the denial of an allowance for some special need of a person living on the edge of tolerable material existence.

While the delegation to caseworkers of the power to make highly individualized decisions may sacrifice objectivity, it has one very significant virtue: it can be highly accurate.[81] The preservation of the power to make judgments that can vary with many unspecified, and perhaps unforeseen, factors tends to insure results most precisely adapted to certain kinds of goals. Two somewhat conflicting goals underlie most traditional public welfare programs: relief of poverty and minimization of cost. One may quarrel with the latter goal, but if sought it presents some serious problems. Minimization of cost means that welfare recipients are expected to live in circumstances that are just barely tolerable. They cannot rise above this level or the cost-minimization goal is sacrificed. But at the same time they cannot be permitted to fall below it for obvious humanitarian reasons. The margin for error is very slight. Thus maximum precision is necessary, and this may well require highly individualized decisions.[82] In contrast, it would be possible, if we were willing to abandon cost-minimization, to use an extremely objective approach. It is possible to make money payments regardless of need. The OASDI system demonstrates that such a system can be highly objective and impersonal. But it is somewhat wasteful if it is viewed solely as a device for relieving or eliminating poverty.

If the foregoing analysis is sound, then the appeal of negative taxation as a welfare device may be explained in part by the conflict between objectivity and accuracy and, more particularly, by the virtue of objectivity. But why *is* objectivity a virtue? The question is diffi-

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[78] On the other hand, there are many aspects of the lives and material well being of the nonpoor that are governed by such vague provisions and are thus subject to comparatively unrestrained administrative discretion. See DAVIS, ADMINISTRATIVE LAW TREATISE §§ 4.13–17 (Supp. 1965); Reich, *The New Property*, 73 YALE L.J. 733 (1964).

[79] INT. REV. CODE OF 1954, § 162.

[80] See CARSON & WEINER, ORDINARY AND NECESSARY EXPENSES (1959).

[81] It also has the virtue, from the viewpoint of the legislature, of obviating the time-consuming process of developing detailed statutory rules and of permitting members of the legislature to avoid taking a stand on some controversial and highly emotional issues. Indeed, much of the vagueness of the welfare statutes may be a product of the failure of legislatures to resolve fundamental conflicts.

[82] This point was originally suggested to me by Prof. Joel F. Handler.

cult—perhaps impossible—to answer. However, the following passage from an article on income tax theory by Herbert Stein does seem to do a good job of evoking relevant reactions:

> Objectivity is, of course, not necessary in a tax system and has not always been highly valued. In the old Chinese system, quotas of tax liability were parceled out to the Provinces on the basis of the Emperor's opinion of what each Province should pay. The Province did the same to the districts, which did the same to the chos (groups of 100 hos), which did the same to the hos (groups of 100 families). The ho leader assessed on each of his 100 families the tax liability he thought each should pay, based on his intimate knowledge of each. Such a system, "properly administered," could be very fair. Certainly, it can take account of many relevant variables other than income. The U.S. tax system may be trending in this direction, with the Ways and Means Committee, in lieu of the no leader, making fine distinctions in the tax treatment of different classes of taxpayers. But it is fundamentally a kind of system that we do not like or regard as fair. We prefer the justice—admittedly rough—that comes from the even application of general rules. We are suspicious of the kind of justice that results from case-by-case discriminations among classes of citizens and taxpayers.[51]

To say that objectivity is a virtue is not to say that all statutes that are objective will be popular or even palatable. An objective rule may produce very bad results and in such cases there are likely to be complaints not only about the results themselves but also about the impersonality of the system. Moreover, some decisions might be so unfortunate from the standpoint of the individual affected that the method of arriving at them would seem a trivial consideration—as, for example, a decision to take a child away from its mother. All that is suggested here is that within certain broad limits of tolerability of results, a system in which decisions are based on detailed published rules that refer to objective criteria is likely to be somewhat more appealing than one in which roughly similar decisions are reached on a more *ad hoc* basis. This seems particularly true where the decisions are being made by a large government agency, in which the advantages of personalized decisions are not likely to be achieved. These ideas seem to explain part of the appeal of negative income taxation, which would bring to public welfare the objectivity of income tax law.

E. The Categorical Approach

One of the troublesome aspects of current welfare institutions is that a major source of funds is the federal government and the federal welfare programs are in large part categorical—that is, they provide aid for certain defined categories of people, such as dependent children whose fathers are absent or unemployed (AFDC),[52] old people (Old Age Assistance),[53] and the blind (Aid to the Blind).[54] The result is that there are some very unfortunate gaps, which are filled, if at all, by the less adequate programs of general assistance financed at the state and local level.

One of the most serious gaps relates to the AFDC program. Originally AFDC made no provision for aid to families in which the father

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[51] Stein, *What's Wrong With the Federal Tax System?*, in HOUSE COMM. ON WAYS & MEANS, 86TH CONG., 1ST SESS., 1 TAX REVISION COMPENDIUM 107, 110 (Comm. Print 1959). See also Klein, *Federal Income Tax Reform: A Reaction to Professor Blum's Twenty Questions*, 42 TAXES 175, 176 (1964), discussing the same idea, and suggesting that in the area of taxation the virtue of objectivity lies in the fact that it tends to minimize resentments that would be aroused by interpersonal comparisons that seem unfavorable to the individual.

[52] 42 U.S.C. § 601 (1964).

[53] 42 U.S.C. § 301 (1964).

[54] 42 U.S.C. § 1201 (1964). See generally DIV. OF RESEARCH AND STATISTICS, SOCIAL SECURITY ADMINISTRATION, U.S. DEP'T OF HEALTH, EDUCATION, AND WELFARE, SOCIAL SECURITY PROGRAMS IN THE UNITED STATES (1964).

was still living and at home. The statute was amended recently to permit the states to provide aid in such cases if they wished,[57] but many states have not taken advantage of this change.[58] Not only is this unfortunate in itself but in addition it leads to some highly objectionable enforcement policies. A loving and conscientious father is not likely to want to leave his home but also is not likely to want his wife and children to starve. If his presence in the home is the sole bar to welfare payments, the temptation to fake absence may prove irresistible. A zealous enforcing agency may then consider that the only way in which it can successfully fulfill the obligation imposed upon it by statute is to conduct searches at night. Thus the sudden intrusion into the home at a time when the husband, if he is in fact at home, can be expected to be in bed with his wife.[59]

The problem is compounded when the term "husband" is expanded to include any man living with the mother.[60] Again, the policing efforts may prove highly objectionable, but in addition there is the perhaps unintended consequence of using welfare status to enforce a moral code that is not enforced for persons not in that status: a self-supporting woman is, for all practical purposes, free to invite a man to live with her, but an AFDC mother does so only at the risk of losing her welfare payments.

The negative income tax has the advantage of avoiding the anomalies of the categorical approach. It would eliminate welfare gaps, though perhaps at some cost to those categories of poor people who have seemed particularly worthy, deserving, helpless, or politically potent, and who may have fared better by seeking their own remedies than by joining a united front. It is by no means self-evident that the losers would be outnumbered by the gainers.

III. Conclusion

It should be clear from the foregoing discussion that negative income taxation does not represent simply a minor procedural change in the means of making welfare payments. Its adoption in any meaningful form would constitute a rejection of some fundamental concepts and goals of existing welfare institutions. At the same time it is not realistic to suppose that a negative tax could be adopted without first making some significant changes in existing income tax laws and procedures—particularly as to the definition of income, the concept of proper taxable unit, and the accounting period. However, if the latter problems do not prove to be too serious an obstacle—and I think they would not—then the negative tax may represent a particularly appealing device for those who would like to see the federal government spending much more money on relief of poverty, but who disapprove of present programs and despair of the possibility of changing them directly.

If negative income taxation is viewed as a complete substitute ultimately for existing welfare programs, then it would probably tend to eliminate those features of present-day welfare that have proved objectionable on either humanitarian or libertarian grounds—the re-

[57] 42 U.S.C. § 607 (1964).
[58] One such state is Wisconsin. See Handler, supra note 53, at 35-36.
[59] See Reich, Individual Rights and Social Welfare: The Emerging Legal Issues, 74 YALE L.J. 1245, 1248 (1965).
[60] See tenBroek, supra note 49, at 654-58, 667-71.

quirements of exhaustion of assets and of reliance on support from relatives, paternalism and control of conduct, individualized *ad hoc* decision making, and the tightfistedness resulting from local control and responsibility. If the definition of income for the purpose of making payments was changed very little from the definition now used for purposes of taxation, some payments would be made to people who are not very poor; the program would then encompass more members of the "submerged middle class" [91] than are now recipients of welfare benefits. With all these changes welfare might well begin to seem much more respectable and less "degrading." However, if existing programs are to be eliminated and if incentive to work is to be preserved for many people who are presently employed, then the program would either become extraordinarily expensive or it would have to adopt a level of benefits (for instance a maximum of 1,500 dollars for a family of four, as under the Lampman-Friedman plan) below that which is currently regarded as adequate A program like old-age assistance can provide adequate levels of benefits without concern for incentive; to a considerable extent this is true also of AFDC. It would be unfortunate indeed if the benefits allowed to the aged, and to families with dependent children and no means of support, were kept below an adequate level because of a need to preserve incentives for other groups of people. This kind of consideration seems sufficient to rule out the possibility of replacing current programs with any kind of negative tax plan that would seem feasible from a cost standpoint within the foreseeable future. Accordingly, the negative tax must as a practical matter be appraised on the assumption that it will be operated side by side with existing programs.

Once it is seen that existing programs will continue to operate, many of the virtues of the negative tax seem to vanish. Welfare recipients would receive a basic payment under the negative tax; this might improve their material well-being considerably and give them some feeling of security and independence. Nonetheless, they would continue to find it necessary to turn to existing agencies for help under existing programs in order to achieve anything like a decent standard of living. Whatever evils inhere in the present system could not be avoided. On the other hand, an abandonment of the idea of negative income taxation would hardly serve to eliminate the troublesome problems of public welfare that are raised in this article. Negative taxation basically does not raise new problems; it merely presents the old problems in a fresh perspective.

The fact that negative taxation probably cannot replace existing welfare programs or free the poor from substantial reliance on those programs lends support to the notion that the poor can best be helped by improving the administration and the funding of existing programs, by improving the present insurance programs, and by establishing new transfer payment programs like family allowances [92] and

[91] See Friedman, Book Review, 1964 WIS. L. REV. 523, 532

[92] See VADAKIN, FAMILY ALLOWANCES (1958); JOINT ECONOMIC COMM., 89TH CONG., 1ST SESS., EUROPEAN SOCIAL SECURITY SYSTEMS, Paper No. 7 (Joint Comm. Print 1965); Schorr, *Program for the Social Orphans*, N.Y. Times, March 13, 1966, § 6 (Magazine), pt. 1, p. 32. The problems arising under a program of family allowances are not too much different from those arising under negative income taxation. Such programs have been used widely in Europe, but most of the problems have been avoided because the payments have been relatively small.

rent subsidies.[93] There is, of course, no shortage of advocates of this approach.[94] From this perspective perhaps the most important role to be played by the negative tax is as a model of a more generous, if not to say Utopian, welfare system to be hoped for in the somewhat distant future. Also it might be a useful temporary device if Congress were at any time to conclude that more money should be spent immediately on relieving poverty and were unable to agree to expand any particular existing program.

Whatever may be its merits as a device for relieving poverty, the negative tax seems an exceptionally useful vehicle for raising important issues of social policy in general and of tax policy in particular. The problem of defining income for the purpose of making payments tends to focus attention, better than any other device that I have encountered, on the apparent unsoundness of many sources of "erosion" of the tax base. After all, if an exclusion, exemption, or deduction is not defensible for purposes of making payments, how can it be defended for purposes of computing taxes? More broadly, it seems to me that anyone who is genuinely interested in tax policy must be concerned with the basic issue of the proper role of government with respect to the distribution of income and wealth. In considering this issue it makes little sense to look solely at the revenue side of the ledger (that is, at the tax system) and to ignore the expenditure side (that is, transfer payments). Thus a certain basic knowledge of our system of welfare payments and welfare law seems essential to sound tax policy analysis. More importantly, we should all be concerned with public welfare out of simple humanitarian concern for our fellow man. To the extent that the negative income tax, by virtue of its use of legal concepts and rules that have traditionally been within the bailiwick of the lawyers, tends to stimulate such interest and concern among members of the legal profession. it will have accomplished a worthwhile incidental objective.

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[93] See, *e.g.*, Editorial, *Rent Subsidy Rebuff*, N.Y. Times, March 22, 1966, p. 38, col. 1 (city ed.); Penn, *Some Poor Folk Reside in Middle-Class Homes With Help of U.S. Funds*, Wall Street Journal, Jan. 24, 1966, p. 1, col. 1 (Midwest ed.).

[94] See, *e.g.*, Fernbach, *Policies Affecting Income Distribution*, in POVERTY IN AMERICA 121 (Gordon ed. 1965); Schottland, *Poverty and Income Maintenance for the Aged*, in POVERTY IN AMERICA 227 (Gordon ed. 1965).

SECOND THOUGHTS ON THE NEGATIVE INCOME TAX

(*Source:* George H. Hildebrand,* Industrial Relations—A Journal of Economy and Society, February 1967 : 138–154)

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I readily admit to finding the negative income tax a highly attractive idea. It offers a method of doing something prompt and substantial about poverty, while taking a long step toward tax equality at the same time. Nonetheless, the more I reflect on the practical implications of the scheme, the more skeptical I become. In my judgment, these emerging doubts are serious, not fanciful or trivial. Unless they can be resolved by the proponents of the plan, I hold that we should concentrate our attention on less ambitious ways to improve the present system of income maintenance and supplementation.

VARIANTS OF THE TAX

By "negative income tax" I mean any form of income maintenance and supplementation based on the mechanism of the personal income tax. In essence this requires the introduction of Treasury subsidies, payable to low income households, as the counterpart of taxes paid to the Treasury by households that are better off. Technically, these subsidies are a form of transfer from government to persons. On the same definition, taxes paid are a negative transfer, as Lampman has pointed out.

The logic of the idea is unassailable and is one of the main reasons for its attractiveness. By means of exemptions, deductions, and excludable forms of income now allowed at law, Congress in effect has established a structure of minimum earned incomes, geared to family size and composition, that are exempt from income tax. However, the income must be earned by the household in the first place—from its labor and its property holdings. Above this no-tax limit—presently $3,000 for a family of four, with both parents under 65 and not blind—

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the Treasury now claims the right to share in household income, by levying taxes.[1] But as the law now stands, the Treasury has no collateral obligation to supplement incomes below the line, that is, to share its revenues by payment of subsidies. Thus, the system is both incomplete and inconsistent. The negative income tax, or better, supplementation through subsidy based on the income tax, would cure these defects. At the same time, it would reduce the present inequality of incomes among persons by using subsidies to alter distribution at the lower end, just as taxes now result in altered income distribution at the middle and upper levels.

Among the proposals now in circulation, there are two main alternative methods for determining income deficiency, both to be self-administered by the reporting family or unit.[2] One of them, originally suggested by Milton Friedman, is to find the amount by which the total value of exemptions and deductions exceeds income and then to fix the subsidy at some percentage of this excess, after deducting 50 per cent of income. The other method—proposed by Lampman, Tobin, Schwartz, and Theobald—is to assign every reporting unit an initial fixed allowance or credit (varied by family size and perhaps composition), to reduce the initial value of the credit by some percentage applied to income received, and then to pay out the net value (if any) as subsidy.[3] In essence, this technique substitutes an allowance for the present exemptions and deductions.

Distinction must also be made between full and fractional guaranteed income plans. With a full guarantee, if there is no other income, the subsidy is fixed at 100 per cent of the designated upper limit to the range of poverty incomes, i.e., any short-fall of income relative to those limits is wholly made up. For a family of four, this amounts to $3,000 in Schwartz's proposal and $3,200 in Theobald's. By contrast, in a fractional guarantee, again assuming no other income, only part of the deficiency is covered by subsidy. For Friedman, the minimum for this size of family is set at $1,500. For Lampman, it ranges from $420 to $2,000, according to the particular variant. Tobin's minimum is fixed at $1,600.[4] Table 1 presents a systematic comparison of these proposed minimum guarantees.

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[1] Each member of the reporting unit now has a $600 exemption. The person filing gets a $200 minimum deduction, plus $100 additional for his own exemption and a $100 deduction for each additional exemption. For those who are 65 and over or who are blind, double exemptions are awarded.

[2] Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press and Phoenix Books, 1963), pp. 190-192; Robert J. Lampman, *Negative Rates Income Taxation*, prepared for the Office of Economic Opportunity (unpublished, 1965) and *The Guaranteed Minimum Income: Is It Worth What It Would Cost?* delivered at a Conference on the Guaranteed Minimum Income, University of Chicago (unpublished, 1966); James Tobin, *Memorandum on Basic Allowances* (unpublished), and "On Improving the Economic Status of the Negro," *Daedalus* (Fall, 1965), pp. 878-898; Edward E. Schwartz, "A Way to End the Means Test," *Social Work*, IX (July, 1964), 3-12, 97; and Robert Theobald, *Free Men and Free Markets* (New York: Potter, 1963), pp. 165-201.

[3] The allowance approach was initiated by Lady Rhys-Williams in England in her pamphlet, *Something to Look Forward To* (London: MacDonald, 1942). As originally formulated, her scheme proposed a weekly national dividend in cash for everyone except those unemployed who refused suitable employment. See also Lady Rhys-Williams, *Taxation and Incentive* (New York: Oxford University Press, 1953), pp. 120-149.

[4] Lampman also considers a full guarantee of $3,000 or $3,130 but has objections to going this far.

TABLE 1.—GUARANTEED MINIMUM INCOMES PAYABLE TO A 4-PERSON HOUSEHOLD UNDER VARIOUS NEGATIVE INCOME TAX PLANS [1]

Type of plan	Total subsidy payable	Per capita subsidy
Full guarantee:		
Schwartz	$3,000	$750
Theobald	3,200	800
Fractional guarantee:		
Friedman	1,500	375
Lampman: [2]		
I	420	106
II-A	1,500	375
II-B	1,500	375
II-C	750	188
II-D	2,000	500
Tobin [3]	1,600	400

[1] Assumes no other income received and that family files as a unit.
[2] Version I is based on 14 percent of excess of total exemptions and deductions over other income (none in this case). II-A through II-D are based on fractional allowances rather than deductions and exemptions.
[3] Based on $400 allowance for each member of reporting unit.

Sources: Milton Friedman, "Capitalism and Freedom" (Chicago: University of Chicago Press and Phoenix Books, 1963), pp. 190–192; Robert J. Lampman, "Negative Rates Income Taxation," prepared for the Office of Economic Opportunity (unpublished, 1965), "The Guaranteed Minimum Income: Is it Worth What It Would Cost?" delivered at a conference on the guaranteed minimum income, University of Chicago (unpublished 1965); James Tobin, "Memorandum on Basic Income Allowances" (unpublished), and "On Improving the Economic Status of the Negro," "Daed-lus" (fall, 1965), pp. 878–898; Edward E. Schwartz, "A Way to End the Means Test," "Social Work," IX (July 1964), [illegible], 97; and Robert Theobald, "Free Men and Free Markets" (New York: Potter, 1963), pp. 165–201.

Editor's note: Green and Lampman's article in the present symposium classifies plans somewhat differently from the method of classification used in papers cited by Hildebrand. The "tax equity negative rates plan" described by Green and Lampman in the present symposium is equivalent to plan I in Hildebrand's table. Plans II-A to II-D are all versions of "welfare-oriented negative rates plans," while the "social dividend plan" does not correspond to any of the plans discussed in Hildebrand's paper.

It must be conceded that any version of the negative income tax involves a fiscal innovation of the first magnitude, simply because it proposes to pay out transfers in cash as an integral part of the income tax itself, rather than as social insurance benefits, public assistance payments, or subsidies of a less obvious kind (low-rent public housing, farm price supports, and so on). But from the standpoint of American socio-economic thought and policy, what is really revolutionary about the proposal are its broader implications: namely, that government should now guarantee minimum incomes and that this guarantee should be available to all poor households filing a tax return, regardless of the reasons for their poverty.

To undertake such a guarantee and to make it universally available would require a decisive break with some deeply ingrained traditions: first, because at these low levels it would effect a divorce of the receipt of income from the correlative performance of labor or ownership of property; and, second, because it would make the guarantee dependent solely on the fact of income deficiency, regardless of cause. This latter element represents an innovation of singular importance. No longer would the right to assistance depend on a showing of handicaps to earning a living—such as old age, disability, or a broken home—the so-called "categorical" approach now followed, under which the able-bodied adult poor and their families are largely excluded from income maintenance.

But there is more to the formal side of the negative income tax. Any version of the idea must face up to the double nemesis of disincentive to work and total fiscal cost. What shall be done about the other income of most poor families? Shall it be offset against the guarantee, as all plans except Lady Rhys-Williams' propose? If so, what should be the rate of offset? If there is to be one, shall benefits from OASDHI or unemployment compensation, or payments from public assistance, be included within other income? And if the guarantee is to be based on existing exemptions and deductions, shall the double exemption privilege for certain persons be retained or dropped?

Any minimum income guarantee must accommodate three mutually interdependent elements: the level of guarantee itself, the rate at which income is to be offset against the initial guarantee, and the total cost of the plan. With a full guarantee, the rate of offset must be made extremely high. Otherwise leakages to those who are not poor will be substantial, and the already huge cost of the plan will become truly astronomical. To constrain cost, Schwartz adopts an average rate of offset of 70 per cent of the first $3,000 of earned income, while Theobald actually proposes a 90 per cent rate. But to get around awkward problems in the income range immediately above $3,000, Schwartz chooses to exempt from tax all incomes up to $4,500. In other words, to avoid resort to an even higher rate of offset, he must open up an extensive array of non-poor incomes to leakages.

Furthermore, what these inordinately high offset rates would actually mean is punitive "taxes" on the labor of the some seven million who make up the working poor. In turn, this would invoke a serious disincentive effect: they would be encouraged to get out or to stay out of the labor market because the terms of trade between income from work and income from the subsidy have been made so unfavorable to remunerative labor. To the extent that these workers withdraw from the labor market, other income falls and the cost of the plan is inflated all the more.

By contrast, a fractional guarantee offers considerable relief from these difficulties, but only at the expense of providing a much smaller contribution to raising poverty incomes. The rate of offset can be made lower—for example, 50 per cent of other income for Friedman, 33⅓ per cent for Tobin, and variable rates of between 25 and 75 per cent, according to the particular variant, for Lampman.[5] In turn, these much more modest rates of "tax" on the labor of the poor would involve much smaller disincentive effects. For this reason, as well as the much lower level of basic guarantee, the total cost of the plan can be sharply reduced. Instead of the roughly $25-30 billion required for Schwartz's or Theobald's 100 per cent plan, Tobin's fractional guarantee would cost around $14 billion, Friedman's about $10 billion, if double exemptions are retained, and Lampman's various versions somewhere between $2 billion and $11 billion as estimated on the basis of 1963 data.[6]

A final consideration concerns the "step" or discontinuity problem, which emerges in the income range where transition occurs from supplementation to taxes payable. To illustrate, suppose that Friedman's plan was adopted: a family of four without other income could establish an income deficit of $3,000, against which $1,500 could be

[5] Lampman's Plan II-A calls for a 50 per cent rate; II B for 75, 50, and 25 per cent on successive increments of $1,000 of other income; II C for a zero rate on first $1,500 and 50 per cent on second $1,500; and II D for 75 per cent on first $1,500 and 25 per cent on next $1,500. The high initial rates in II B and II D are intended to discourage small amounts of work by the very poor and their children, while much lower rates in the higher brackets are aimed at encouraging incentive among the adult working poor who are already partially or fully self-supporting.

[6] Based on 1962 or 1963 income and poverty data.

claimed as subsidy on a 50 per cent basis. If, instead, the head earned $1,500, the subsidy falls to $750, and final disposable income becomes $2,250. By reason of a 50 per cent rate of offset, a 2:1 relationship holds right up to $3,000 of other income, at which no net transfer is payable. Below $3,000, then, earnings from work are "taxed" at 50 per cent. By contrast, each added dollar of income earned within the $3–$4,000 bracket is subject to direct income tax at 14 per cent. From the standpoint of equity, therefore, the poorer worker pays a much stiffer rate of "tax" than the one who is somewhat better off. For the same reason, the disincentive effect would be greater in the low income group.

The situation might be corrected by fixing the offset rate at 14 per cent, which would greatly curtail the contribution of the subsidies to poverty incomes. Or the positive tax rate in the first bracket could be raised to the punitive level of 50 per cent, with unacceptable consequences for incentive for those who are self-supporting and not poor. Alternatively, the offset rate could be graduated downward as income rises, to reach 14 per cent on the last increment of income, or the lower end of the present tax schedule could be abolished. But descending graduation reduces the value of the transfers, while raising the level of minimum income subject to tax would mean severe losses of revenue together with substantial direct leakages to those who are not poor by official standards.[7]

ADVANTAGES OF THE TAX

There seems to me to be four basic reasons for the interest that the negative income tax now commands. The most obvious one of them, of course, is the rediscovery of poverty under the impetus of the civil rights movement. Another is that, compared with techniques for demand management and for increasing the productivity of the working poor, the device provides a quick and universal method for raising poverty incomes to any level desired. A third is that it seems to offer a unitary solution to the problem of income maintenance: The tax supposedly would permit us (1) to get rid of categorical public assistance and its means test, and (2) to extend and improve income maintenance, while simplifying and rationalizing it. Finally, as already noted, the proposal carries considerable technical appeal for the economist because it would complete the logical symmetry of the income tax, while achieving greater equity at the same time.

So far as our new-found impatience with large-scale poverty is concerned, it may be remarked that this sentiment began to become manifest early in the sixties, when the growth-gap problem was also paramount. It seemed easy at that time to contemplate a major new program of transfer payments, both as a means for relieving poverty and as a way to combat the depressive effects of fiscal drag on total demand.

Turning to the second factor, there is no doubt that the negative income tax is a speedy and all-inclusive method of getting cash into the hands of those who need it, one that has incidental advantages as a

[7] Tobin's flat allowance with a uniform 33⅓ per cent rate of direct tax on all amounts of other income in the lower and middle brackets is the neatest solution? But observe the consequences: for a family of four, net subsidies would be paid all the way up to $4,800 of other income, and taxes due on the present schedule would be reduced on all incomes between $4,800 and $6,289 by using the allowance as a tax credit. Furthermore, Tobin estimates total leakage to the not-poor at $3.2 billion.

new form of automatic income stabilizer as well. True, a direct and perhaps even universal scheme of children's or family allowances, quite separate from the income tax, would be another method for using the transfer technique in a large way. As for demand management and efforts to improve the earning power of the working poor by vocational preparation and training and by breaking down discriminatory barriers to better jobs, we are dealing here with much slower and much less dramatic methods. But they do go to causes, rather than to the effects of poverty, for they attack one of the roots of the low income problem, that is, low earning power. By contrast, transfer approaches deal primarily with relieving the consequences of poverty. Only indirectly do these techniques promote attainment of the valuable ideal of adequate self-support, i.e., by helping the children of the poor to obtain more education.

But what about the negative income tax as a transfer device? The urge for a unitary solution to the "welfare problem" and perhaps even for all income maintenance is perfectly understandable on the part of those who are impatient with the scope and nature of present arrangements and who are profoundly dissatisfied with the results. The tax helps convert the receipt of public assistance from a matter of stigma to a matter of right and speeds the transition from status to contract.

These motives led Lady Rhys-Williams, a member of the Liberal Party in Britain, to propose universal allowances, financed through the income tax, as a total substitute for the traditional social insurances, with all their apparatus of payroll taxes and complex benefit schedules, and for payments under "national" (public) assistance. For somewhat different reasons, Friedman seems to take a similar view in his suggestion that the subsidies under his plan could replace the whole "rag bag" of existing measures. And even if one stops short of the sweeping Rhys-Williams proposal, as Lampman and Tobin do, surely there is ample room for concern about public assistance today.

For one thing, both in intent and in effect the categorical programs exclude perhaps fifteen million adults and children in families which are mostly headed by the able-bodied working poor.[8] In the main, only the small ADC-Unemployed-Parent program or locally controlled general assistance (G.A.) are available to this large group, and then only in parsimonious amounts.[9] Some grave criticisms have been made of the federal-state Aid to Families with Dependent Children (ADC) program, which covered 3.4 million children and 1.1 million adults in January 1966.[10] Monthly benefits vary greatly, ranging from $8.36 per recipient in Mississippi to $51.39 in New Jersey (national average:

[8] There are three competing hypotheses to account for the low incomes of the able-bodied poor: (1) by reason of monopsony—monopoly they do not get their full marginal products. (2) by reason of a network of imperfections in the labor and capital markets, they do not get a fair chance for an education and to compete for better jobs; or (3) they are at the low end of a Gaussian distribution of native endowments. The main explanation probably lies in (2) and (3). If (2) is significant, it follows that increased income maintenance must be the basic approach. For the same reason, unionization and higher minimum wages are irrelevant, as well as downright harmful to the poor on economic grounds.

[9] Incomplete figures for January 1966 show only 715,000 recipients of G.A., with per capita payments of only $30.36 monthly on the average. Averages by state range from $3.04 monthly in Arkansas to $68.74 in Maryland. *Welfare in Review*, IV (April, 1966), 38.

[10] Many of these charges have been reviewed and appraised by Eveline M. Burns, *Social Security and Public Policy* (New York: McGraw-Hill, 1956), pp. 86–89; Edgar May, *The Wasted Americans: Cost of Our Welfare Dilemma* (New York: Signet, 1965), pp. 47–66; and Maurine McKeany, *The Absent Father and Public Policy in the Program of Aid to Dependent Children* (Berkeley: University of California Press, 1960), I, 33–40.

$34.97), mainly because they are determined by the states.[11] In 1961, two-thirds of the cases involved families with an absent father (desertion, divorce, separation, or as what May calls an "itinerant lover"). Precisely because 29 states tie eligibility to absence of the male head, the program does provide incentive to desert, although the scale of this effect is another question. [12] More serious, primitive "suitable home" policies have allowed some administrators to refuse eligibility where illegitimate children are involved—a curious example of punishing the offspring for the sins of the parents. Still worse, strict application of the means test frequently has the effect of imposing a 100 per cent "tax" on earnings from work. As a result, the mother and her older children are given an incentive either not to work or to conceal such income. On another count, there is enormous community pressure to hold down costs, which restricts the admission of eligible families. There is also a legitimate interest in policing the more egregious forms of "chiseling" and outright fraud; this task has so burdened the social workers that little opportunity exists for remedial case work.[13] Clearly, no further demonstration is needed to justify careful consideration of the need to improve existing welfare policies.

Finally, the negative income tax offers some tangible advantages. If it really could be a full substitute for categorical assistance, it could replace the present 100 per cent "tax" on work, although it can do so only with a fractional guarantee. It also could do much to expand badly needed rehabilitative case work. It would involve an approach to income maintenance that would enlarge the freedom of choice of the poor, because the subsidies would be paid in cash and not in kind. If the scheme is carefully designed to preserve the incentive to work, it would represent a market-oriented solution to the welfare problem. This, in turn, would be consonant with the country's traditions. However, because it proposes to make assistance generally available—a real advantage from the standpoint of relieving poverty—the plan must encompass the families of the able-bodied, whether they are employed, unemployed, or idle. At this point, a sharp conflict emerges with the popular and tenaciously held belief that the able-bodied should be required to support themselves.

This conviction comprises a central element of the individualistic system of values by which our work- and property-oriented society has been organized from its very beginnings. It is the basic reason why income maintenance in the United States rests on social insurance arrangements, in which benefits are so largely tied to past earnings and contributions, and on the categorical approach to public assistance. The linkage between earnings, contributions, and benefits is a way of recognizing alike the ideals of self-reliance and payment according to productive contributions. By its very nature, categorical assistance is an indirect means of paying deference to self-reliance, while at the same time giving acknowledgment to our Judaeo-Christian tradition of charity toward the unfortunate, the handicapped, and the helpless.

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[11] *Welfare in Review*, IV (April, 1966), 35. ADC now includes a small "unemployed parents segment" and a foster-care program. It began in 1935 as a successor to earlier measures to aid widowed mothers.

[12] Whether the program fosters illegitimacy is also quite another matter. May contends that about 25 percent of the children involved are illegitimate, but this is not necessarily the effect of the program itself. As he suggests, the begetting of illegitimate children is about the worst example of the profit motive in action in the world, since it "pays" an average rate of return of only $35 a month.

[13] The profession is badly unpaid, overburdened by case loads, and usually not adequately trained—all evidence of its low social esteem.

Obviously there is a running conflict between these two principles, which is the reason why public assistance is so often characterized by niggardliness, hostile and punitive attitudes, and spasmodic Draconian attempts to cut welfare costs. Thus it has been relatively easy to obtain pensions, tax privileges, and assistance for the aged; they can no longer work and are viewed as having already earned such provisions in the past. It has also been relatively easy to get appropriations for training and retraining projects for poor youngsters and displaced adults; such efforts are directly linked to improving personal earning power. But until the ideal of a deliberate strengthening of family solidarity can gain the same degree of social acceptance as that of self-reliance, any scheme of universal income maintenance and supplementation for the poor—be it children's or family allowances or transfers through the negative income tax—seems likely to be wrecked on the shoals of popular politics.

DISADVANTAGES OF THE TAX

No feasible version would obviate the need for public assistance. Given the traditional American attitude toward public assistance and the extremely tight fiscal circumstances now prevailing and likely to prevail for some time to come, a 100 per cent guarantee plan is simply out of the question. This is to say nothing of the dubious social wisdom of having the federal government, to paraphrase Lampman, make the following declaration to every poor household: "We will pay you $3,000 a year if you promise not to work; and if you insist on working anyway, we will tax your earnings at a rate even higher than that applied to a multimillionaire." This is not the way to strengthen the position of the father in the family, nor to foster the still socially valuable ideal of self-support. But it is a way to establish politically a large dependent class, readily identifiable, fully subject to stigma, and well isolated from the rest of the community.

We are left, then, with an array of proposals for a fractional guarantee. Would any of them improve on payment levels now available under OASDHI and the categorical programs and serve as a more humane substitute? Table 2 below suggests the answer, and it is largely negative.

With the sole exceptions of a single person or a couple at the minimum under OASDHI, Friedman's plan would do nothing for those now receiving some form of income maintenance and would seriously lower the positions of most of them. Tobin's version would also fall far short of present payments under assistance, except for G. A. Lampman's Version I (see Table 1) would be of real help to those at the OASDHI minima, but otherwise lies well below present levels. If substituted, his Versions II–A through II–D would injure those now on Old Age Assistance, Medical Aid to the Aged, Aid to the Permanently and Totally Disabled, and Aid to the Blind; II–D would distinctly benefit families on Aid to Dependent Children and General Assistance, but II–A through II–C would not. All of these plans would aid poor households now excluded from any public income maintenance and supplementation—clearly a major gain on its own terms.

Assuming that any form of the negative income tax should make no poor household worse off than it is already, two conclusions become obvious. First, none of the plans can serve as an overall substitute for the existing categorical assistance program. And second, none of them would be an overall substitute for the present social insurances. In fact, all but Friedman's plan explicitly assume the retention of OASDHI and unemployment compensation. In consequence, these feasible versions of the negative income tax do not represent a unitary solution to the problem of income maintenance, either as a whole or for public assistance alone. Indeed, both Tobin and Lampman expect assistance to survive in some form. What we actually have proposed here, then, is one more addition to the present pluralistic system, an addition whose basic merit is that it would extend transfer payments at once to many millions now excluded from the system.

It is true that subsidies under these plans would be larger in some states than those now paid under the various assistance programs—in some instances much larger. But in the richer states the converse holds. The primary problem is how to make sure that supplementation by Treasury subsidies would be effective, not just *substitutes* for existing rates of payment under assistance. Since some form of assistance will continue to be needed even if the negative income tax were adopted, it is equally important to reform the old programs.

TABLE 2.—PER CAPITA BENEFITS UNDER EXISTING INCOME MAINTENANCE PROGRAMS COMPARED WITH THOSE PAYABLE UNDER VARIOUS FRACTIONAL GUARANTEE PLANS[1]

[Annual value]

Existing programs	Current average per head	Payment per head under negative income tax for those with no other income						
		Friedman[2]	Tobin[3]	Lampman[4]				
				I	II-A	II-B	II-C	II-D
Old-age assistance (OAA)[5]	$941	$800	$400	$224	$375	$375	$188	$500
Medical aid to the aged (MAA)[5]	2,175							
Aid to the permanently and totally disabled (APTD)	1,012	450–800	400	126	375	375	188	500
Aid to the blind (AB)	1,105	450–800	400	126	375	375	188	500
Aid to families with dependent children (ADC)	420	375	400	105	375	375	188	500
General assistance (GA)	364	375	400	105	375	375	188	500
OASDHI:[6]								
Single person, minimum	528	800	528	752	528	528	528	528
Single person, maximum	2,016	800	2,016	2,240	2,016	2,016	2,016	2,016
Couple, minimum	396	750	400	606	396	396	396	396
Couple, maximum	1,512	750	1,542	1,712	1,512	1,512	1,512	1,512

[1] For OAA and MAA subsidy under negative income tax assumes a single-person reporting unit. For ADC and GA, subsidy is based on a 4-person family reporting as a unit. All cases assume no other income besides subsidy, except, where applicable, OASDHI benefits. All assistance figures based on national averages.

[2] Assumes double exemption privilege is retained. OASDHI benefits excluded. Range shown for APTD and AB reflects possibility that recipient is under 65 or 65 and over.

[3] Tobin would exempt OASDHI beneficiaries from his plan, save that where such benefits fall below $400 the latter figure would become the minimum.

[4] Lampman would retain all OASDHI benefits; his plan I retains double exemptions, meaning that subsidies would be added to OASDHI benefits, which are now excluded from other income. For versions II-A through II-D, his figures all apply to a family of 4, converted here to per head equivalent.

[5] Present payments under these programs, assuming the same person was a recipient for a full year. Subsidies for both are calculated solely on the basis of income deficit. Actually, under the OAA and MAA programs, there is some possibility of overlap and a recipient may obtain payments from both programs.

[6] Assumes worker retires at 65 and that if there is a spouse, she too is 65 or over. Minimum and maximum are based on top and bottom monthly brackets under 1965 amendments converted to annual values. Figures for couples are on a per capita basis. Figures for Lampman's plan II-A are for OASDHI benefits only. Subsidies may increase these but the amounts could not be calculated.

Sources: Figures for payments under assistance programs from Welfare in Review, U.S. Department of Health, Education, and Welfare, vol. IV (April 1966); values for subsidies estimated by the author.

The negative income tax would not displace the means test. There are two reasons for this contention. The first is that public assistance will have to be retained. Since this is so, it will continue to be necessary to audit the income and assets of claimants, both to fix net payment rates according to schedules and to police cases of gross fraud. Local communities would accept no less.[14]

Second, if it could be a full substitute for existing public assistance, the negative income tax would still not displace the means test. Even in this optimal situation the most the device could do would be to introduce a self-administered means test, since every return must require a declaration of income. The returns filed by those claiming the subsidies would have to be checked, sampled, and audited—what else is this but a form of means test? In extreme cases, there would have to be prosecutions for fraud. And if the old principle of taxation still holds, that the higher the tax the greater the frequency of evasion, then surely the higher the prospective subsidy the greater will be the incidence of fraud—another, less welcome aspect of the symmetry concept.

It would be difficult to provide adequate, regular, and frequent assistance. The basic principle of all modern public assistance is that transfer payments should be provided to help fill the unmet needs of poor households. To do this properly the degree of need must somehow be measured; payments must bear a reasonable relationship to need as determined; payments must continue to be made available in adequate amounts so long as the need lasts. How well would the negative income tax meet these criteria?

The use of some set of minimum income standards, with built-in adjustment for family size, is a simple and objective way to measure "need."[15] The difficulties begin when one considers timing. If the subsidy is to be paid after the final return is filed, then the sum forthcoming will reflect "other" income already received and the size of the family at the time of filing. Under present practice, any qualified taxpayer can claim a lump-sum refund at this point. Is the subsidy to be treated in the same way? Is it to be paid over to the filer (say the male head), perhaps to be dissipated quickly, even though the household's need is a continuing one? If not, on what legal basis can the amount be parcelled out over the next 52 weeks? Suppose, further, that the household's capacity to earn other income or to get assistance payments is reduced in the year ahead, or that it suffers heavy medical expenses or acquires twins or an aged grandmother as new dependents. Any of these events will increase current need under the means test. But if the

[14] In my judgment the case against the means test has been seriously overdone, identified as the test is with the parsimonious "Overseer of the Poor" of earlier times, and with the British dole under "supplemental allowances" to the permanently unemployed of 1931. In fact the test can be made no more obnoxious than a credit application. Federal standards could be introduced or improved to insure a more humane use of the test, mainly by reducing the discretion of the investigator and the traditional tie to relatives' responsibility. Granted it would be ideal if we could eschew the whole distasteful business. But this is just not in the cards until American society is ready to accept some kind of universal allowance system, "as a matter of right."

[15] Except that need depends also on differences in living costs. The Social Security Administration calculated its poverty income minimum at $3,130 for an urban family of four (1964 prices) and at $2,190 for a farm family of the same size. Under the negative income tax, both families would get the same cash grant, given the same amount of other income.

subsidy has been fixed on an ex post basis, it will have no reasonable relationship to actual need.

Suppose, instead, that income deficiency is calculated on an ex ante basis for the year ahead or, better, by quarterly declarations. I will pass over entirely the question of how to instruct perhaps ten million inexperienced prospective filers in the delicate art of preparing a tax return. I simply say that poor households will be no more able to avoid errors of optimism and pessimism in predicting other income than anyone else. If the family overstates its expected other income, it will receive a lump sum at the end of the period rather than at the time the money was needed. If it understates income, it will have overdrawn the subsidy; it will have to settle up with the Treasury at that point—or accept a lower rate of payment for the next period. In either case, the consequence is the same: the subsidy ceases to bear any relationship to continuing current need. This difficulty seems inherent in any proposal to tie transfer payments to the mechanism of the income tax. I know of no way to get around it.[16]

Double exemptions and excludable income would disrupt the equity of the subsidies. The premise of the negative income tax is that income deficiency is the best way to measure need—a proposition that I accept. As we have seen, there are two ways to calculate the deficiency: (1) fix a flat allowance per capita and set off other income at some rate, as Tobin and Schwartz would do, or (2) gauge deficiency by the value of unused deductions and exemptions (net of other income), as Friedman does and also Lampman in his Plan I. If this second method is used and if the subsidies are actually to reflect need as so measured, a major reconstruction of present tax law becomes necessary, as Lampman recognizes but Friedman does not. Otherwise, the amounts payable will depend on critical variables other than family size, i.e., the age of family members and the type of "other" income received. In other words, it will pay to be 65 years or over and it will pay to have income deriving from OASDHI benefits and tax-exempt bond interest. The reason is that double exemptions are now awarded to the elderly (and to the blind), while OASDHI benefits (for retirement, widowhood, or disability) and interest on certain securities need not now be counted in adjusted gross income for purposes of taxation.

Consider, for example, a pair of two-person families composed of man and wife. In the first, the couple is under 65; the husband earns $1,570 as an unskilled laborer; there is no other income. Exemptions and deductions total $1,600. Deducting "other" income, their deficiency is $30. Under Friedman's 50 per cent plan, their subsidy is a niggardly $15. Under Lampman's Plan I at 14 per cent, it is a microscopic $4.20.

Now take the second couple, both over 65 and receiving $1,570 from OASDHI, without other income.[17] Double exemptions make their total exemptions and deductions worth $3,000. Retirement benefits need not be included as income. On Friedman's proposal, their subsidy would be $1,500, as against Lampman's $420. On the basis of final disposable income after subsidy, the first couple has only $1,585 under Friedman's

[16] ... these points, see Thomas K. Hitch, "Why The Negative Income Tax Won't ... (July-August, 1966) pp. 13-15.

[17] ... retirement benefit in 1964 for worker and his wife at age 62 or over, *Social ... Bulletin, Annual Statistical Supplement*, XXVIII (December, 1964): 29.

plan, while the second gets $3,070, although household size and initial income are the same. The reason is that as the law now stands the subsidy would yield the elderly pair a 100:1 advantage over the working couple. Can it be seriously argued that their actual need is 100 times as great, especially with Medicare and MAA?

Looking at the matter in another way, under present law each child is "worth" $700 in exempt income, if one has the income in the first place, while each elderly person is worth either $1,500 or $1,600, depending on whether he or she files the return. Indeed, through the exclusion privilege, receipt of OASDHI benefits makes the aged person worth considerably more from the tax standpoint.

Justification for this differential treatment is not convincing, but to assault the tax privileges of the aged, many of whom are not poor on any standard, is no easier than an attack on motherhood. Yet, if equitable treatment is to be had under the negative income tax and the subsidies are to conform to the purposes of the proposal, then neither age nor type of other income should influence the size of the transfer. The problem is easily solved in principle. The real difficulty is political. It can be evaded simply by leaving tax privileges intact, as the price to be paid for getting more income into the hands of those poor who are now excluded from public assistance. However, this choice involves other encumbrances: the total cost of the new transfers might rise as much as 40 per cent, there would be substantial leakages to those who are not poor in terms of "all other income," benefits would not be geared strictly to number of dependents, and the self-supporting poor would receive grossly inequitable treatment.

Partly for these reasons, Tobin would exclude OASDHI beneficiaries and abolish single or double exemptions for those who are covered by his plan. Lampman, in all versions of his Plan II, would count OASDHI benefits as income and use a flat allowance in place of deductions and double or single exemptions for determining income deficiency. Obviously this is the preferred course if the intent of the negative income tax is to be served with full integrity. But to undertake it is to open up a political hornets' nest, sufficient probably to defeat the proposal itself.

CONCLUSION

The weaknesses of the negative income tax fall into two classes: those that are technical and those that turn on questions of cost and ideology. Some of the technical problems probably could be overcome.

The level of minimum guarantee and the rate of offset could be high enough to replace most forms of public assistance. The means test feature cannot be eliminated and will continue as long as we have public assistance. Problems concerning the timing, adequacy, and frequency of payments will be much harder to resolve. Finally, it is theoretically possible to remove the tax privileges of the aged; to set up new controls to forestall induced splitting up of non-poor reporting units and to redefine the status of dependents; and to achieve a more general reform of the law, which now permits so many non-poor taxpayers to escape so much income taxation.

Questions of cost and ideology are quite another matter. Putting the poverty-income gap at about $12 billion in 1963, a new transfer program of at least $5 billion net would be required to accomplish anything significant, with OASDHI and assistance payments unchanged. Ignoring the question of whether the country can now afford even this much, the basic difficulty is to make sure that an adequate and equitable version could be had within this limit. With removal of double exemptions and excludable income, Friedman's plan would cost roughly $5 billion, *if* there were no disincentive effects.[18] Lampman's II-D, to me his most attractive formulation, implies a minimum guarantee of $500 per head, and could involve a net cost of anything between $2 and $11 billion, depending on the extent of disincentive effects and reductions in public assistance. Thus neither Friedman's nor Lampman's plan assures a firm cost ceiling. Tobin's scheme is the most carefully drafted of all and has many attractive features. But on his estimate, it would cost at least $14 billion on 1962 data. As for the Schwartz and Theobald proposals, they would involve a net cost of over $25 billion and therefore are out of the question on this count alone.

I submit that the federal budget today cannot supply even $5 billion without substantial curtailment of other forms of expenditure. The one possibility would be to capture the needed revenue by all-out reform of the income tax law, including introduction of an equitable form of the negative income tax. I doubt that the needed reforms can be had, however, because they require the consent of the middle and upper income groups. The plea that the proceeds could be used to finance massive transfers to all of the poor, including the able-bodied, is likely to fall on deaf ears. Assistance by category is still a "categorical" imperative in our system of values. Although I prefer children's or family allowances—on a universal basis a matter of right—to income maintenance through the income tax, I admit that they too suffer from the same political and fiscal handicaps.

If the above assessment stands up, then those of us who want to raise low incomes will have to settle for more modest immediate gains, deferring larger schemes for later and more appropriate times. This means we should concern ourselves now with reconstruction of public assistance.

Because of limited space, I venture into this subject only briefly, and even then somewhat timorously, because it is so complex. As a starting point, I take it for granted that some form of public assistance will always be needed, to fill out the interstices among the social insurances and also to supplement such benefits where they are too low. For the long term, it seems to me desirable to make need the sole criterion for eligibility, and where need is proved on clear standards, to make provision a matter of right.[19] Incidentally, this is the most that the negative income tax itself would do. Both are simply alternative ways to provide universal transfer payments to the poor.

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[18] This calculation is for 1963 data, assuming deductions and exemptions of $750 each for 35 million poor people, and accepting Lampman's figure of $4 billion in OASDHI benefits paid to the poor only. Total deductions and exemptions then amount to $26.2 billion; "other income" is $16.4 billion ($12.4 billion in earnings on Internal Revenue data plus $4 billion OASDHI); total deficiency is $9.8 billion, and half this becomes subsidy at the 50 per cent rate.

[19] See *Having the Power, We Have the Duty*, Report of the Advisory Council on Public Welfare to the Secretary, U.S. Department of Health, Education, and Welfare (Washington, D.C.: 1966). See also, Elizabeth Wickenden and Winifred Bell: *Public Welfare: Time for a Change* (New York: New York School of Social Work, Columbia University, 1961).

To put public assistance on these new foundations means that the categories must go and that all the onerous existing restrictions based on age, residence, length of residence, suitable home requirements, unemployability of either parent, total and permanent incapacitation, and relatives' responsibility must eventually be supplanted. It also means a greatly increased role for the federal government in setting standards and providing grants-in-aid.

These changes cannot be accomplished overnight. For one thing, they will cost a great deal of money—out of a population of 34 million poor persons in 1965, only 7.4 million were receiving public assistance, mostly at levels below those now being recommended.[29] For another, these proposals would arouse militant opposition in Congress, whose members are responsible to local constituencies in which the traditional "Poor Law" approach finds expression in these very restrictions. Nonetheless, these objectives seem sound to me as long-term goals.

In the meantime, some practical changes can be made even in a regimen of tight budgets. The 2.1 million aged poor now on OAA might be transferred to OASDHI at corresponding benefit levels. It also may well be possible to drop MAA as Medicare and companion state programs under Title XIX get under way.

The main candidate for practical reform would be ADC, and I do not underrate the obstacles here. I estimate that it would cost about $500 million to raise the *minimum* payment rate per recipient to $50 monthly (the national average is now $35). If new federal standards could be imposed, desertion or divorce as a condition for eligibility could be ended (now imposed in 29 states). It would also be desirable to allow each ADC family to earn some minimum amount of other income—initially, say, $500—without deducting it from assistance payments. Coupling these changes to existing subventions to poor youngsters enrolled in the various job corps and training programs would achieve a substantial advance, at a net added cost of well less than $5 billion.

In counseling caution and delay regarding the negative income tax, I am not saying that it should be rejected out of hand. But I do contend that it is not demonstrably superior to a different kind of allowance system, entirely divorced from the income tax, or even to a major overhaul of public assistance. I also hold that it is a serious mistake to believe that all that the poor really need is a large-scale infusion of new money. They also require far more skilled social work as well as increased provision of other services in kind rather than in cash, for instance, education and vocational training.

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[29] *Having the Power* * * * p. 8. This report provides an eloquent and cogent statement of long-run principles for rebuilding public assistance. However, I can find no estimate of total costs. On a rough estimate, about 15 million out of 34 million poor persons in 1965 received neither public assistance payments nor social insurance benefits, or both together. To provide this large, excluded group with $500 each in yearly assistance would require $7.5 billion, assuming no disincentive effects and allowing nothing for increased payments to those now on assistance. The omission of cost figures may have been deliberate. To supply them on the basis of an ultimately desired minimum income standard would have crippled the report's practical appeal. To base them on what is feasible for the budget would imply endorsement of a much lower standard, which also would be undesirable.

Guide to Negative Income Tax Decisions

By JAMES L. CLARE*

Corporate tax professionals—in Canada, in the United States, and in other countries—should make up their own minds about negative income tax proposals because

> Income security programs, including the proposed negative income taxes, are really an integral part of the *same* process as the taxation of incomes
>
> In the long-run, greater cost-effectiveness by our governments is a key to restraining total tax burdens.

Income security and income taxation are simply different sides of the same coin—namely, transfers of resources between governments and citizens. Speaking generally and broadly, income taxation consists of positive transfers from citizens to governments, while income security consists of negative transfers away from governments to citizens.

The concepts explored in this article have specific reference

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to Canada, the United States, the United Kingdom, and the OECD (the Organization for Economic Co-operation and Development). However, these concepts may have broad applicability to other countries as well.

Many Seek Income Security Reform

There is indeed a consensus that income security reform is needed. This is so in Canada, in the United Kingdom, and in the United States, and perhaps in varying degrees in other countries. Unusually large proportions of option makers and of citizens generally, from across the political spectrum, agree on the need for:

- greater incentives for income security recipients to work and to save
- greater simplicity in income security operations, both to make life easier for recipients and to reduce bureaucratic overheads
- reduced stigma on income security recipients
- income security benefits being paid in cash, rather than in kind.

An editorial in the U.S. magazine Business Week of January 17, 1977, was not untypical:

> There can be no doubt about the necessity of welfare reform And at least in theory, some form of income guarantee—a negative income tax—appears to be the best way of handling welfare

While there has been widespread advocacy of negative income taxes (NIT's), by no means always has such support been accompanied by precise details as to exactly what NIT's should be introduced, and as to what such NIT's would cost in the long run.

Thus, the same editorial of Business Week referred to above went on to caution:

> But there are questions. How much will it cost? Can payments be adjusted to allow for differences in the cost of living in various parts of the country? How much will taxes on the higher brackets have to rise to pay for the massive transfers to the low-income groups? Will there be unanticipated side effects as there have been with other programs?

In similar vein, an OECD report issued in 1974 under the title of Negative Income Taxes, warns that there would be formidable problems in securing social acceptability for NIT's, particularly because of their high costs.

This OECD report does see some progress as being a possible result of studying NIT proposals. Nevertheless, the report says that the practical results from NIT's would "fall short of the aims of some theoretical proposals that have been put forward."

ACHILLES' HEEL -- LEAKAGE ABOVE THE POVERTY LEVEL

The Achilles' heel of the typical NIT proposal would be leakage above the poverty level. Substantial income security payments would go to those who are now entirely self-supporting.

No Leakage: No Incentive

Consider a particular family, consisting of two parents and several young children, such that the guaranteed income level under NIT proposal is $6,000 a year.

First suppose that this family has no other outside income, since the father is disabled and the mother is fully occupied with the young children. Then the monthly NIT payment would have to be fully $500, to achieve the desired income guarantee.

Then, suppose that the father recovers sufficiently to work part-time and earn $240 a month. If the negative income tax payments were reduced by this same $240 i.e. from $500 a month down to $260 a month, then the NIT reduction rate would be 100%. True, the family would still have the desired guaranteed income level of $500 a month, consisting of $240 from part-time employment plus $260 from the NIT. However, in such a case, there would be little incentive to work and accordingly it is usually proposed that the NIT reduction rate be significantly less than 100%.

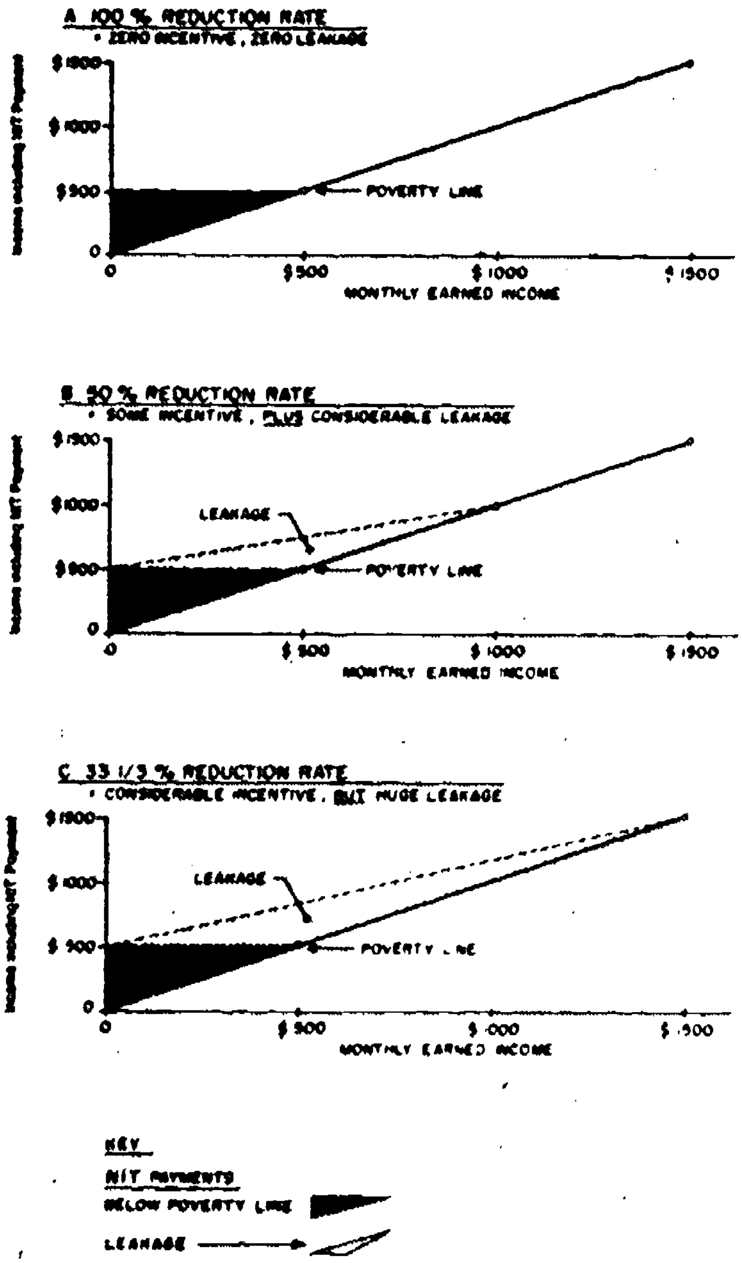
Some Incentive: Considerable Leakage

Suppose that the NIT reduction rate were set at 50%.

In such a case, consider another family identical to that just discussed except that the father is in good health, is steadily employed and earns $600 a month. This family is currently above the defined poverty level and is really in no need of any NIT payments at all. However, the inexorable mechanics of a universal NIT would make the family available for an NIT payment equal to $500 a month less 50% of monthly family income. $500 a month less 50% of $600 a month equals a NIT payment of $200 a month.

CHART 1

TYPICAL NEGATIVE INCOME TAXES (NIT) LEAKAGE ABOVE THE POVERTY LINE



Considerable Incentive: Huge Leakage

If a NIT is to replace the welfare component of income security thoroughly, provide a sufficiently adequate income guarantee to eliminate poverty, and have a reduction rate less than 100%, there will inevitably be substantial leakage to those above the poverty line.

For any given income guarantee level, the lower the reduction rate percentage, the greater the leakage. A 33 1/3% reduction rate would provide more incentive to work and to save than a 50% reduction rate, but the 33 1/3% reduction rate would cause more leakage than the 50% reduction rate.

These inexorable realities of negative income taxes are touched on by the schematic illustrations in Chart 1.

CARTE BLANCHE RISKS

Before we sign a blank cheque in support of thorough and comprehensive NIT's to eliminate poverty, tax professionals and others should politely but firmly inquire as to the long-run costs of these theories - not only the cost of eliminating poverty but the inexorably associated costs of leakage to those who are not in poverty and who have little or no likelihood of falling into poverty.

TABLE 1

SAMPLE NEGATIVE INCOME TAX (NIT) ILLUSTRATIONS OF OVERPAYMENTS AND UNDERPAYMENTS

Income of NIT Recipient Tested Monthly

Month	Earned Income of NIT Recipient	Monthly NIT Payment Needed	Actual Monthly NIT Payment Based On An Earned Income of	Actual Monthly NIT Payment Actual NIT Amount For Month	NIT Correct, or Overpaid, or Underpaid Col. (5) Col. (3)
(1)	(2)	(3)	(4)	(5)	(6)
January	nil	$500	nil	$500	Correct
February	nil	$500	nil	$500	Correct
March	nil	$500	nil	$500	Correct
April	nil	$500	nil	$500	Correct
May	$240	($500 $240/3) = $420	nil (re March)	$500	Ovespaid $80
June	$240	$420	nil (re April)	$500	Overpaid $80
July	$240	$420	$240 (re May)	$420	Correct
August	$240	$420	$240 (re June)	$420	Correct
September	nil	$500	$240 (re July)	$420	Underpaid $80
October	nil	$500	$240 (re August)	$420	Underpaid $80
November	nil	$500	nil (re Sept.)	$500	Correct
December	nil	$500	nil	$500	Correct

As cited above, Business Week also questioned whether there would be "unanticipated side effects as there have been with other programs." For one thing, the incomes of the poor are prone to fluctuate, and moreover to fluctuate relatively more than the incomes of those who are not poor. The typical NIT proposal would be seriously deficient in coping with such fluctuations.

Consider the illustrations in Table 1. These assume that the family in question has a monthly income guarantee of $500, that the family income is zero for the months of January through April, becomes $240 in each of the months of May through August, and becomes zero again from September through December. They also assume that family income is to be reported monthly, so that in effect family income is subject to income tax returns twelve times a year. Quite apart from the bureaucratic overheads involved therein, consider the impact on the family shown in Table 1.

Assume a NIT reduction rate of 33 1/3%. In January, the NIT payments will be proceeding at a rate of $500 a month, because the family income is zero.

In April, the family income will still be zero, so that the NIT payment made in May will be at the level of $500 even though it should be at a level of $420. Thus, the $80 overpayment will have to be recovered, in some manner or another.

Once the NIT monthly income tax testing catches up with the fact that the family is now earning $240 a month, the NIT payment will be reduced to $420. Thus, payments of $420 would be made, correctly, in both July and August.

The NIT income tax test in August will show that income in July was $240. Accordingly, the NIT payment for September will still be $500 less one-third of $240, or still be a net of only $420. However, the family income for September has become zero, and thus the full NIT monthly guarantee of $500 will be needed. Since the September payment will be merely $420, there will be an $80 deficiency for September.

Underlying Flaw of NIT

The above are but some rather over-simplified specific examples of the inflexibility of typical NIT proposals attempting to cope with the fluctuating incomes of the poor.

The underlying flaw of such a NIT proposal is that in August it attempts to estimate the income that the family will receive in September (i.e. **in the future**) based on actual income received in July (i.e. **in the past**).

The huge possible ultimate costs of negative income taxes are one thing. This combination of having bureaucratic overheads for frequent income testing yet still having serious inflexibility, is reason alone to see whether there is not a more constructive alternative for reforming the process of transferring resources between governments and citizens

TIME FRAME AND REGULAR INCOME TAX

Remember that the regular income tax withholding arrangements levied against the salaries of employees in Canada and in the United States do not attempt to tax the September income of a family based on the income of that family in July. Rather they attempt to deduct income taxes *in September* based on *the current September income*.

Likewise, in reforming the welfare component of income security, it would appear desirable to avoid estimating future incomes based on past incomes, but rather to treat actual incomes that are currently in fact being earned.

Note too that there are elements of income security under the income tax system. Consider a married man who is working and a wife who is not working, with several children. When another child is born, the income tax payable by that husband in Canada (or in the United States) is often reduced. Thus, income tax exemptions within the income tax system often provide elements of income security.

Conversely, under the income security system there are also elements of income taxation. For example, someone in public housing who earns more money — perhaps from a better job, or from working overtime — will find his monthly rent increased as a direct result. That increase in monthly rent constitutes additional taxation of his income. (See The TAX EXECUTIVE magazine for July 1977, Seeking Realism in Unemployment Insurance.)

The 1940's and Tax-Credits

Such linkages between the income security system and income tax system were realized long before initial proposals were made for typical NIT's, long before NIT's were proposed by the renowned economist Milton Friedman, in about 1962.

In 1944 two United Kingdom actuaries, R. J. Kirton and A. T. Haynes, presented a paper to the U.K. Institute of Actuaries Income Tax in Relation to Social Security. At just

TABLE 2

SAMPLE TAX-CREDIT SCHEME ILLUSTRATIONS OF CORRECT NET TRANSFERS OF RESOURCES

Month	Earned Income of Tax-Credit Recipient	Monthly Net Transfer of Resources Needed	Actual Monthly Net Transfers of Resources: Plus, By Tax-Credits	Actual Monthly Net Transfers of Resources: Minus, By Regular Income Tax Withholding	Net Transfers (4) (5)	Net Transfers Correct, or Overpaid, or Underpaid − Col. (6) − Col. (3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
January	nil	$500	$500	nil	$500	Correct
February	nil	$500	$500	nil	$500	Correct
March	nil	$500	$500	nil	$500	Correct
April	nil	$500	$500	nil	$500	Correct
May	$240	($500 − $\frac{\$240}{3}$) = $420	$500	$\frac{\$240}{3}$ = $80	$420	Correct
June	$240	$420	$500	$80	$420	Correct
July	$240	$420	$500	$80	$420	Correct
August	$240	$420	$500	$80	$420	Correct
September	nil	$500	$500	nil	$500	Correct
October	nil	$500	$500	nil	$500	Correct
November	nil	$500	$500	nil	$500	Correct
December	nil	$500	$500	nil	$500	Correct

about the same time, Lady Juliet Rhys Williams published remarkably similar thoughts under the title, Some Suggestions for a New Social Contract.

Essentially, the suggestions of Kirton, Haynes, and Rhys Williams, all showed how it was possible to avoid altogether the separate apparatus and bureaucracy of welfare testing of incomes. They showed how flat and uniform tax-credit payments could be made to certain categories of individuals, universally within each category and at constant levels from month to month. Of course, the actual incomes earned from month to month by all in employment would be taxed by the regular income tax system.

After the not unusual incubation period of nearly three decades, their general approaches were incorporated in an official U.K. government Green Paper, in 1972, Proposals for a Tax-Credit System.

Flexibility and Low Overhead of Tax-Credit Schemes

A tax-credit system would avoid the inflexibility of the typical NIT proposal as illustrated in Table 2. The table shows that the tax-credit alternative would be preferable on grounds as outlined below.

Typical NIT Proposal	Tax-Credit System
1. Inflexibility, because estimating future incomes based on past incomes.	1. Flexibility, because assessing current incomes as they are earned
2. High overhead, because requires periodic income testing through the year	2. Minimal overhead, because only one normal income tax return required per year
3. Greater complexity, because requires a separate welfare income taxation system	3. Maximum simplicity possible, because uses the single, existing regular income tax system only.

The above remarks are most applicable to countries with widely applied personal income tax systems, especially Canada, the United Kingdom, the United States. The OECD report warns that there could be difficulties in other countries, where much lesser proportions of total taxation are raised through the personal income tax system. However, even in those countries, a tax-credit approach might well have significant advantages over the typical NIT proposal.

The foregoing is significant and important but there remains the basic dilemma that the ultimate costs of ending poverty could be horrendous, whether handled through a typical NIT, or through a tax-credit proposal that would simply be achieving the same transfers of resources as the typical NIT.

A Pasteur Analogy

The underlying weakness of the typical theoretical NIT proposal is that it is a single proposed solution looking for a suitable problem to solve.

Tax planners know that it is more fruitful to first get a thorough grip on the problem, and then to develop a solution afterwards.

Louis Pasteur said that beginning by looking for a cure is generally a fruitless task. Acting in such a way is just hoping to hit on progress by chance. It is much better to try first to understand the nature, the cause, and the course of a disease, in the distant hope that one day the researcher will find a means of preventing the disease altogether. Pasteur claimed that this approach of considering first the problem was the key to beating the puzzle of rabies.

THE POVERTY PROBLEM

Turning from the snap NIT cure to the nature of the actual problems underlying income security, the basic reality is that poverty has not one but *two* causes.—

Poverty is not caused by able-bodied adults available for work for whom there is work. Rather, poverty is caused either by (1) able-bodied adults being unable to work, on account of sickness or unemployment, or by (2) the presence in a family of dependents (namely, children, mothers of young children, the permanently disabled, and the elderly).

Value of Unemployment Insurance

It follows that a NIT would be needlessly wasteful to pay out money to any able-bodied adults in full employment and with no dependents, since able-bodied adults are *not* in poverty so long as they are working.

The only income security payments such people would really need would be unemployment insurance payments while prevented from working, whether by reason of sickness or involuntary unemployment. The unemployment benefits they would need would not necessarily have to be income-related benefits that increased with earnings levels. Relatively modest unemployment insurance payments would be sufficient to permit the individual to provide the essentials for living during sickness or unemployment.

With that exception, the only other income security payments needed would be for those who are not able-bodied adults available for work: children, mothers of young children, the permanently disabled, the elderly. For such dependents, tax-credit payments rather than income tax exemptions would eliminate poverty.

Then turning to income taxation, there would merely need to be income tax exemptions for able-bodied adults available for work. Above those income tax exemptions, and on total incomes of dependents, regular income taxes could be levied at normal personal rates on the individuals concerned. See, for example, the U.K. 1972 Green Paper.

Mixed Approaches

The theoretical NIT proposals do at least focus on those most in need. As between two families of the same size but with different incomes, the larger NIT payments would go to the family with the lower income. Similarly, as between two families with the same income but with different numbers of dependents, the larger NIT payments would go to the family with the larger number of dependents.

This proposed NIT pattern of paying most to those with the lowest incomes raises questions about the effectiveness and reasonableness of income security programs paying *income-related* benefits. Can it be correct to have both the NIT approach and the earnings-related approach, such as under unemployment insurance programs in Canada and the United States, and such as under the U.S. social security program and under the Canada pension plan? Perhaps, as the above mentioned OECD report suggests, examining such programs against the theoretical NIT background would be revealing and fruitful.

INCENTIVES AND DISINCENTIVES

There is a subtle, but important psychological shift in switching attention from theoretical NIT proposals to tax-credit proposals.

Under theoretical NIT's, the name of the game is to work less—or even to forget to report income, or to split up families—so as to increase the amounts of monthly subsidy payable under the NIT.

By contrast, under a tax-credit scheme, the tax credits would be paid universally to everyone within an eligible category of dependents, regardless of their income level. The message is, in effect, "Now it is up to you . . . you have this much tax-credit payment given to your dependents, and now it is your turn to work and to save and to increase your own economic well-being, as much as you are capable and as much as you wish."

Whether that would be a big difference or a little difference, at least it would be a difference.

The negative income tax: would it discourage work?

Advocates of the negative income tax often contend that such a program would provide stronger work incentives than conventional welfare benefits; evidence from recent tests indicates that this assumption may not be well-founded

Robert A. Moffitt

Would government cash transfer payments to the poor, in the form of a negative income tax, discourage work effort among recipients? The strongest evidence for the existence of such a disincentive comes from four income maintenance experiments, each of which tested the effects of the negative income tax on samples of the Nation's low-income population. The findings from the experiments have been released in uneven spurts, as they have become available. This article summarizes the results of all four experiments, shows what we have learned from them, and discusses their limitations in providing correct estimates of work disincentive effects.[1]

The experiments were conducted over a number of years in selected "test bore" sites across the country: New Jersey and Pennsylvania (1968–72), rural areas of North Carolina and Iowa (1970–72), Seattle and Denver (1970–78), and Gary, Indiana (1971–74). Three of the tests were limited to specific groups of people: only husband-wife couples were studied in New Jersey and Pennsylvania and in the rural experiment, and only blacks in the Gary test, although the Gary test included both couples and families headed by women. All races and family types were included in the Seattle-Denver study.

The sample sizes for the experiments were 1,300 in New Jersey and Pennsylvania, 800 in the rural tests, 4,800 in Seattle-Denver, and 1,800 in Gary. The first experiment was conducted in the New Jersey-Pennsylvania area because of its high density of urban poor, because it initially had no Aid to Families with Dependent Children Unemployed Parent Program for husband-wife couples, and because area government officials were very receptive. The rural experiment was designed to study a different group of the population, and thus focused on two States with different types of low-income populations and agricultural bases. Seattle and Denver were chosen to represent the West, and in the case of Denver, to study a Chicano subpopulation. Finally, Gary was selected because its population permitted concentration on black female family heads in the Aid to Families with Dependent Children Program, and because of receptive local officials.

However, the experiments were alike in the most important respect: each attempted to test the negative income tax using classical experimental methods. A sample of the low-income population was selected in each area, and families were assigned to either an "experimental" group or a "control" group. The experimental group received negative income tax benefits, the control group did not, and the effect of the experiment was measured as the difference in work effort between the two groups. The experiments also varied the generosity of benefits to the experimental groups in order to measure the effect of this factor on work effort.

Like all pure negative income tax schemes, the plans provided a positive benefit to families with no earnings at all, whether the head or any other family member

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was "voluntarily" or "involuntarily" unemployed, there was no work requirement in any of the experiments. However, to provide work incentives, benefits were not reduced by the full amount of any earnings that the family did receive. That is, the "tax rate" or "benefit-reduction rate" was less than 100 percent. The algebraic statement of the benefit formula is

$$B = G - tY,$$

where B is the benefit paid to the family, G is the "guarantee level"—that is, the amount paid to a family with no other income—Y is the family's income level, and t is the benefit-reduction rate.

As is apparent from the benefit formula, an extra dollar of income, Y, reduces the family's benefit by t dollars, where t is some fraction between 0 and 1. Therefore, because an extra dollar of earnings lowers the benefit by only t dollars, total income does indeed increase—by 1 − t dollars. The experiment varied levels of the guarantee (G) and reduction rate (t) given to different families in the experimental group. On average, however, a tax rate of .50 and a guarantee level about equal to the poverty line ($6,191 per year in 1977 for a family of four) were offered. The guarantee level in all cases was higher for larger families.

The economists conducting the experiments expected that the results would show some negative effect on work effort; the important question was what the magnitude of the reduction would be. Moreover, they believed that the size of the work disincentive would vary with the levels of the guarantee and the benefit-reduction rate: the higher each of them, the greater the work disincentive. This expectation was held most firmly for married couples, to whom the existing welfare system provides benefits in only a few States. For female heads of families, who are already eligible for conventional welfare benefits, there was no prior expectation of a net change in work effort. In fact, the negative income tax was originally proposed in the 1960's as a program to increase work incentives relative to the existing welfare system, which at that time had fairly high benefit-reduction rates that may have discouraged work.

Findings confirm expectations

Table 1 shows the difference in hours of work per week between the experimental and control groups, broken down for husbands, wives, and female heads of families in each of the test areas. Work effort is shown as hours of work per week, but most of the studies actually measured work hours over longer periods. For analytical purposes, hours have been standardized here to a weekly basis.

Data presented in the table are unequivocal evidence that hours of work are reduced by the negative income tax. The disincentive effects for husbands range from about 1 percent to 8 percent. For wives, they vary much more—from almost zero to 55 percent (although the latter figure may be a statistical anomaly). Disincentives of 12 to 28 percent were reported for female family heads in the only two experiments for which esti-

Table 1. Average differences in weekly hours between control and experimental groups in four test areas

Area and source of estimate	Husbands: Absolute difference	Husbands: Percentage difference	Wives: Absolute difference	Wives: Percentage difference	Female heads of families: Absolute difference	Female heads of families: Percentage difference
New Jersey-Pennsylvania						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rural [illegible]						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Seattle-Denver						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gary						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

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ments are available. Gary and Seattle-Denver. These represent the differences in hours worked between the experimental group, which received negative income tax payments, and a control group which received Aid to Families with Dependent Children; thus, the results indicate that the negative income tax programs tested also reduced work effort relative to the existing welfare system.

Although the experiments clearly found a work disincentive effect, the ranges of response are rather disconcerting. Moreover, the effects for different demographic groups follow no clear pattern. Interracial variations, for example, appear to be only a result of random statistical error. In fact, in the Seattle-Denver experiment, no statistically significant differences between the races were found. (The Seattle-Denver data in table 1 are averages across all racial groups.)

One interesting finding that has emerged from the experiments relates to the form which work reduction has taken for men. There are strong indications that reductions in total hours of work most often reflect reductions in likelihood of being employed at all, rather than marginal reductions in the hours of those who remain employed. That is, the reduction in total work hours shows up as a decline in the employment rate of the experimental sample relative to that of the control sample.

The policy implications of this finding are ambiguous. On the one hand, withdrawal from the labor force is a major change in work effort, one that society is not likely to accept. On the other hand, this also implies that the total reduction in work hours stems from a rather large response by a small number of men. Therefore, the negative income tax does not appear to have a pervasive effect on the work ethic of the low-income male population; in fact most of the men do not respond at all.

This phenomenon is undoubtedly related to the difficulty in reducing hours of work while remaining employed. Work hours in most jobs held by prime-age men are institutionally fixed and difficult to change. This is less true of the poor than of the population as a whole, low-wage workers being more likely to hold part-time or unstable jobs. But even these workers may be able to reduce work effort mostly by not working at all. However, one way in which workers may be able to adjust hours marginally is by reducing overtime work. There has not been a great deal of attention paid to this possibility, except in the New Jersey experiment, where it did indeed appear that part of the response resulted from a reduction in overtime.

A decrease in the employment rate of the low-income population can occur in several ways. It may take the form of lengthening of time between jobs, longer periods of unpaid vacation and holidays, or permanent withdrawal from employment. Results from some of the experiments indicate that the first of these responses—a lengthening of time between jobs, often corresponding to an increase in the length of unemployment spells—was the most common. If used for more thorough job search, such unemployment spells may result in higher wages when employment is finally secured. For young workers, some data have also shown an increase in school attendance, which may contribute to the individual's human capital and also ultimately increase wages. Both of these uses of nonwork time are probably more acceptable than increases in pure leisure. However, although this investment should result in greater future earnings potential, no earnings increases were apparent in data from the experimental period.

The lengthening in unemployment spells took an interesting form in the Gary test, where heavy layoffs in the steel industry early in the experiment drove up local unemployment rates. The data showed that both the experimental and control groups increased their work effort over the period of the experiment as unemployment rates in the area dropped, but that the growth in the employment rate of the control group was greater than that in the experimental group. Consequently, this "relative employment reduction" was taken as evidence that the negative income tax resulted in a slower return to work among members of the experimental group, probably because they were using the payments as a form of unemployment insurance. Members of the control group, with much less generous conventional unemployment benefits available, were probably forced by economic distress to return to work sooner.

As previously mentioned, the experiments also tested negative income tax plans with various benefit-reduction rates and guarantees. The results in table 1 should be thought of as the responses to plans with a benefit-reduction rate of about 50 and a guarantee level equal to the poverty line—roughly the average across all experiments. Most of the plans currently before Congress propose somewhat lower guarantee levels (equal to 65 percent of the poverty line), which would suggest a smaller work disincentive. Therefore, measures of the work effort resulting from various combinations of benefit-reduction rates and guarantees are needed to predict the responses to different programs.

The following tabulation shows the average effects of selected guarantee and benefit-reduction rate adjustments.

[illegible]	Change in hours of work for		
	Husbands	Wives	Female heads
An increase of [illegible] per week (1977 dollars) in the guarantee level	[illegible]	[illegible]	[illegible]
An increase of [illegible] percent in the benefit-reduction rate	[illegible]	[illegible]	[illegible]

As indicated, increases in the guarantee level decrease hours of work. The effects are largest for female family heads, who appear to be very responsive to the guarantee level, and smallest for husbands. Both husbands and wives also work less, the higher the benefit-reduction rate, with wives responding more than husbands. For female heads, the experimental findings show unexpectedly that increases in the benefit-reduction rate promote work effort. The explanation generally given for this result is that, in economic terms, the "income effect" of the change dominates the "substitution effect": the reduction in take-home pay caused by the higher benefit-reduction rate strongly induces these women to work more in order to make up for the loss of income. However, the absolute size of this increase in work hours is rather small and is overwhelmed by the large negative effect of an increase in the guarantee level. In fact, the results show that, in general, experimental group members are somewhat more sensitive to changes in the guarantee than to changes in the benefit-reduction rate.

These findings do indeed imply that the response to a cash transfer program with a guarantee set at 65 percent of the poverty line would be smaller than shown in the experiments, which set it at 100 percent. At the lower guarantee level, the percentage reductions in work effort discussed in table 1 would be about 2 percent lower for husbands, 6 percent lower for wives, and 11 percent lower for female family heads.[7] Nevertheless, work disincentives would remain.

Limitations of the experiments

Several limitations of the experiments should be taken into account when assessing the results. The most important qualification is that the experiments by and large lasted only 3 years, a fact which was known beforehand by the families who agreed to enroll. Participants consequently may have behaved differently than they would in a permanent national program, although it is not obvious whether they would respond more or less under nonexperimental conditions. As Charles Metcalf has shown, there is a tendency for individuals in a short-run experiment to overrespond (reduce work effort more than they would in a permanent program) in order to take advantage of the temporarily [illegible] available from [illegible] the natural tendency for persons to underrespond simply because a permanent guarantee of income has more impact than a temporary guarantee. [illegible] there is no way to tell which tendency [illegible].

Fortunately, some families in the Seattle-Denver experiment were enrolled for 5 years (and were told so beforehand), to ascertain whether the duration of the experiment makes a difference. The preliminary results indicate that these individuals responded substantially more than those enrolled for [illegible], suggesting that the underresponse tendency dominates in test situations. Interestingly, there is also some evidence that this difference was largely due to the rather high guarantee levels offered in Seattle-Denver, and that a national negative income tax with a guarantee closer to 65 percent of the poverty line would have permanent effects closer to those discernible among the 3-year test families.[8] More research should be forthcoming on this topic.

Another limitation of the experiments is that they yield very little information on the welfare participation rate one might expect from a national negative income tax. Participation rates in existing welfare programs vary substantially (about 20 percent in the Aid to Families with Dependent Children Unemployed Parent Program, 50 percent in the Food Stamp Program, and 90 percent in the Aid to Families with Dependent Children Program), and it is likely that a national negative income tax would not have a 100-percent participation rate. However, the experiments rarely made any formal provision for nonparticipation. Families were automatically sent a payment by mail if they reported their income every month, which they were required to do in order to take part in the experiment. Some families left the experiment for this reason, and others undoubtedly refused to participate in the first place because they did not want to be welfare recipients. Therefore, the experiments do not provide much information on the potential nationwide participation rate of eligibles.

A final problem with the experiments relates to the underreporting of income by the experimental and control groups. In the Gary experiment, there is some evidence that the female family heads in the experimental group underreported income substantially more than those in the control group, and that the reduction in work effort indicated by the data was partly spurious. Rather than the 28-percent response shown in table 1, the evidence suggests that the true response was on the order of [illegible] percent. Such [illegible] were not significant, however [illegible] response in any [illegible] Seattle and Denver [illegible] experiment [illegible] findings [illegible] work disincentives [illegible] negative aspects of program [illegible].

Despite these limitations, the [illegible] experiments have [illegible] our knowledge [illegible] cash transfer programs. We [illegible] have [illegible] what the magnitude [illegible] and [illegible] national program were instituted. And [illegible] has not been discussed [illegible] experiments have also contributed substantially to our understanding of the proper administration [illegible] and [illegible] effective

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knowledge of program evaluation techniques. In any case, the test results have provided much support for the current emphasis on work requirements and guaranteed-jobs programs in welfare reform, and have given us a much better ability to quantify the tradeoffs society would encounter among alternative antipoverty plans. □

FOOTNOTES

More detailed information on the results of the experiments may be found in Robert A. Moffitt and Kenneth C. Kehrer, "The Effect of Tax and Transfer Programs on Labor Supply: The Evidence from the Income-Maintenance Experiments," in Ronald Ehrenberg, ed., *Research in Labor Economics* (Greenwich, Conn., JAI Press, 1981).

Economic theory actually predicts that the effect of a change in the benefit-reduction rate can be either positive or negative, depending upon whether the "income effect" dominates the "substitution effect." This is mentioned again below.

Actually, a range of estimates have been found in the experiments. These numbers are the midpoints of the ranges. Also, caution should be exercised in using these estimates inasmuch as they refer to net changes in G and t over what they would be in the absence of a negative income tax. For example, a positive level of G already exists for female heads and positive levels of t exist for both female heads and married couples from the positive income tax system.

For example, in 197? the poverty line for a family of four was $11? per week, so 6? percent of it is $7?. The difference is therefore $42. The percentages cited in [illegible] are derived by multiplying the [illegible] [illegible]-effects in table 2 by $4? and dividing by the average hours of work for husbands, wives, and female family heads in the experiments (40, 3? and 3? per week, respectively).

See Charles E. Metcalf, "Making Inferences from Controlled Income Maintenance Experiments," *The American Economic Review*, June 197?, pp. 47?–8?.

See Gary Burtless and David Greenberg, "The Limited Duration of Income Maintenance Experiments and Its Implications for Estimating Labor Supply Effects of Transfer Programs," Technical Analysis Paper 1? (U.S. Department of Health, Education, and Welfare, 19??). See also Robert A. Moffitt, "Estimating a Simple Life Cycle Model of Labor Supply: The Evaluation of a Limited Duration NIT Experiment" (New Brunswick, N.J., Rutgers University, 1979). Mimeographed.

See David Greenberg, Robert Moffitt, and John Friedmann, "The Effects of Underreporting on Estimation of the Experimental Effects on Work Effort: Evidence from the Gary Income Maintenance Experiment," *The Review of Economics and Statistics* (forthcoming).

See David Greenberg and Harlan Halsey, "Underreporting and Experimental Effects on Work Effort: Evidence from the Seattle and Denver Income Maintenance Experiments" (SRI International, 19??). Mimeographed.

A note on communications

The *Monthly Labor Review* welcomes communications that supplement, challenge, or expand on research published in its pages. To be considered for publication, communications should be factual and analytical, not polemical in tone. Communications should be addressed to the Editor-in-Chief, *Monthly Labor Review*, Bureau of Labor Statistics, U.S. Department of Labor, Washington, D.C. 20212.

PART IV.—DEBATE PROPOSITION THREE: THAT THE FEDERAL GOVERNMENT SHOULD PROVIDE EMPLOYMENT FOR ALL EMPLOYABLE UNITED STATES CITIZENS LIVING IN POVERTY

FEDERAL EMPLOYMENT AND JOB TRAINING PROGRAMS

(By Karen Spar)

Government will unite with private industry to create job training programs for unskilled and dislocated American workers under legislation passed by the 97th Congress, scheduled to take effect October 1, 1983. The Job Training Partnership Act of 1982 (P.L. 97-300) sets up a major new employment and training system and is the most recent in a series of Federal work and training programs which began in the early 1960s.

The new program's immediate and best-known predecessor was the Comprehensive Employment and Training Act (CETA) of 1973, which spent about $57 billion between 1975 and 1983 on jobs and training for the economically disadvantaged. The largest and most controversial component of CETA was public service employment (PSE), which accounted for more than $23 billion in outlays between CETA's inception and 1981, when PSE was phased out at the request of President Reagan and with the consent of Congress. Public service employment developed a generally bad public image during its early years, due to a perception that the program was not serving those who truly needed it, and was mismanaged and riddled with waste and abuse. Despite amendments in 1978 which successfully targeted the program on the economically disadvantaged and eliminated much of its potential for fraud and abuse, the negative public image persisted and PSE was abolished at the end of FY 1981.

When the rest of CETA was scheduled to expire at the end of FY 1982, Congress chose to conduct a major re-evaluation of Federal work and training

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policy, which resulted in enactment of a completely new program, rather than reauthorization of CETA. The new Job Training Partnership Act (JTPA) differs from CETA in several important ways: it is built upon a partnership between government and industry, rather than controlled by government alone; it includes a major role for State governors; it provides training only and not subsidized employment, except in very limited cases for youth; the amount of funds which can be used for non-training expenses is strictly limited; and all programs will be held accountable to mandatory performance standards.

In recognition of rising unemployment among skilled workers who are being displaced by economic, regional or occupational decline, Congress included in the new legislation a separate program for dislocated workers. Two other employment-related programs, the Work Incentive (WIN) program and the U.S. Employment Service, were amended by JTPA in an effort to coordinate all components of the Federal employment and training system.

BRIEF HISTORY OF FEDERAL WORK AND TRAINING PROGRAMS

The first non-military Federal job training initiative since the New Deal is generally considered the Area Redevelopment Act of 1961 (ARA). The chief purpose of the Area Redevelopment Act was to help economically depressed localities by attracting new industries to these areas. As an adjunct, the ARA authorized a limited amount of training to ensure the availability of a skilled workforce for newly created jobs. Persistently high unemployment rates led to enactment in 1962 of the Manpower Development and Training Act (MDTA), which authorized a broader array of training services and allowances and replaced the training provisions of the ARA. Initially, MDTA focused on experienced workers displaced due to automation. although as unemployment rates began to fall among white males, the employment and training needs of minorities, youth and the economically disadvantaged moved closer to the forefront.

Two years after enactment of the MDTA came the Johnson Administration's declaration of a war on poverty and passage of the Economic Opportunity Act, which spawned a wide range of programs designed to eradicate poverty, including a variety of work experience and training programs targeted specifically on the poor, minorities and youth. By the late 1960s, there was a proliferation of job training programs, supplemented in 1971 by public service employment with passage of the Emergency Employment Act. The perceived need to streamline and coordinate these activities, combined with the Nixon Administration's preference for "special revenue sharing" or block grant-type programs, led to enactment in 1973 of the Comprehensive Employment and Training Act (CETA), which absorbed many of the existing work and training programs and created a new system designed primarily at the local level.

The original CETA established States and units of local government with populations of 100,000 or more as prime sponsors to receive and administer employment and training funds. Prime sponsors were given authority to plan and design local programs in response to local needs. As originally enacted, CETA authorized a full range of comprehensive employment and training services, to be tailored at the local level to match the needs of the community, and contained a separate title for transitional public service employment. Job Corps, which had begun under the Economic Opportunity Act, and a program of employment-related services for special target populations also were components of CETA.

One of the first significant amendments to CETA was the addition of an emerg[illegible] lic service jobs program, enacted in 1974 in response to rising unemp[illegible] tes and expanded in 1976. This program, which became title VI of CETA, was intended for people unemployed because of cyclical downturns in the economy and was meant to supplement the regular public service employment program authorized by title II. CETA again was amended in 1977, with passage of the Youth Employment and Demonstration Projects Act (YEDPA), which authorized a variety of experimental approaches to attacking the problem of high jobless rates among youth.

The last rewrite of CETA took place in 1978, when the program was more specifically targeted on the low-income and disadvantaged and various management provisions were tightened in response to criticisms of the program, particularly the public service employment title. In addition, a new Private Sector Initiative Program (PSIP) was added as title VII of CETA, in keeping with the notion that private industry should be more involved in Federal employment and training activities. Also in 1978, the Revenue Act authorized the Targeted Jobs Tax Credit as an incentive to private employers to hire individuals from one or more of seven disadvantaged target groups. Funds for the Department of Labor's responsibilities in administering this credit were included in the appropriation for the title VII Private Sector Initiative Program.

Another program related to CETA is retraining for displaced workers eligible for special benefits under the Trade Adjustment Assistance (TAA) program. A limited amount of training for this group, displaced from their jobs because of competition from imports, had been provided under title III of CETA, which authorized special Federal responsibilities. However, the Omnibus Budget Reconciliation Act of 1981 amended the TAA to authorize appropriations for training.

All portions of CETA technically expired on September 30, 1982, although a provision in the new Job Training Partnership Act allows CETA to remain in effect one additional year until JTPA becomes fully operational in FY 1984.

THE JOB TRAINING PARTNERSHIP ACT OF 1982

Development of the Legislation

Members of Congress and their staff began planning a new job training program in late 1981, anticipating CETA's scheduled expiration one year later. Key committee chairmen and members felt a bipartisan and cooperative effort was essential for enacting a new program, given the highly controversial nature of previous job training debates and the prevailing atmosphere of budget-cutting and Federal retrenchment from social programs. As a result, Senators Dan Quayle and Edward Kennedy, chairman and ranking minority member of the Senate Employment and Productivity Subcommittee, together with Senators Paula Hawkins and Claiborne Pell, jointly sponsored one of the original job training bills in early 1982. In the House, Employment Opportunities Subcommittee Chairman Augustus Hawkins and ranking Republican James Jeffords each initially introduced their own measures but combined them into one bill during subcommittee mark-up. The House and Senate subcommittees held joint hearings in March 1982 on the Quayle-Kennedy, Hawkins and Jeffords bills, in addition to the proposals of the Administration, hearing from more than 90 witnesses representing State and local governments, the private for-profit sector, nonprofit community-based organizations and groups serving various constituencies such as youth, minorities, women, the handicapped and organized labor.

Despite the bipartisan and bicameral approach taken during the 1982 job training debate, the Senate and House each produced legislation with many minor and several significant differences. Conferees met throughout September and finally agreed on compromise legislation which President Reagan signed into law October 13 (P.L. 97-300).

Lawmakers reached a concensus on certain policy questions very early in the legislative process, which helped the bill move relatively quickly through the Congress. For example, drafters of the bill agreed that training, and not jobs, should be provided through the legislation. While many lawmakers felt strongly that a jobs program is necessary during times of high unemployment, they agreed not to include such a program in the training legislation and instead address the issue of job-creation separately.

As part of the move toward "new federalism," or limited Federal involvement in human resource programs, Members of Congress and the Administration agreed the Federal role in job training should be reduced from what it had been under CETA and more flexibility should be provided at the State and local levels. The extent to which the Federal role should be limited, however, was a controversial issue. Likewise, State versus local control was not easy to resolve, particularly since CETA had been a locally operated program but the Administration preferred to place control in the hands of State Governors.

Since the vast majority of jobs in the United States are located in the private, for-profit sector, designers of the job training legislation wanted to involve private employers in the new program's planning and operation. Lawmakers agreed to build the new program on a concept tested under title VII of CETA, the Private Sector Initiative Program, which created a network of Private Industry Councils (PICs) to plan the spending of job training funds. These PICs, which are reconstituted under JTPA with somewhat different membership requirements, did not come into existence under CETA until 1980 and only controlled a small portion of funds. Most training activities under CETA, as well as training programs preceding CETA, were designed and operated by public officials with assistance from the private, non-profit sector.

Given the history of job training programs, which have continually been plagued by questions of cost-effectiveness, lawmakers wanted to build mandatory performance standards into the new system. These standards would be tied to the goal of the program, which was agreed upon as providing people with skills or other assistance necessary for them to move off welfare and into unsubsidized employment. Finally, there was concensus among chief congressional sponsors of job training legislation that a separate program, in addition to training for the economically disadvantaged, should be developed for dislocated workers who have lost their jobs because of economic, industrial or regional decline.

The Reagan Administration had an additional concern, which was not shared by all members of Congress and emerged as one of the most controversial issues during the debate on job training legislation. The Administration felt strongly that as much of the training money as possible should be used for direct training costs and not for related expenses such as administration and supportive services. In addition, the Administration wanted to prohibit any payment of training allowances or stipends to individuals while participating in training. At the opposite extreme of the Administration's position was the previous practice under CETA, which paid trainees a minimum wage allowance for every hour spent in training. Representative Hawkins' original legislation would have continued the CETA practice. An alternative offered by Representative Jeffords would have based the amount of an individual's training allowance on his income. The combined issue of training allowances and related supportive services was the final and most difficult one resolved by House-Senate conferees, largely because of the Administration's overriding concern in this question. The final resolution allows, but does not require, payment of allowances at local option and places a limit on the amount of funds to be used for allowances and other supportive services.

The legislation finally approved by the conference committee and signed by President Reagan differs from CETA and its predecessors in a number of significant ways. As discussed above, the new program authorizes training only and includes no employment component except for a limited amount of subsidized jobs for youth. The Federal role is more limited, with greater control given to States and local governments, operating in partnership with Private Industry Councils. Only a limited percentage of funds can be used for training allowances, supportive services and administrative costs, and all programs will be held accountable to mandatory performance standards. The law also includes a completely new program for dislocated workers, which will be administered by States.

EFFECTIVENESS OF PAST PROGRAMS

As the latest in a series of Federal work and training programs, the Job Training Partnership Act is built upon the experiences of its predecessors, most notably, the various activities conducted under CETA. The following is a brief look at some of the lessons learned during the CETA years. This section is not meant to be a comprehensive review of all the voluminous research conducted under CETA, nor does it critique the methodology used in such research. Rather, it highlights some of the more common findings about the impact of different types of training on different population groups, particularly as they may be relevant to JTPA. All research discussed in this section is listed in the bibliography at the end of this paper. For a complete discussion of the research findings and methodology, readers are referred to the original research.

Training for the Disadvantaged

Women and people with limited prior work experience tend to benefit the most from training in terms of increased earnings after completion of the program, according to a number of CETA evaluations. Several studies reported substantial earnings gains for women, but smaller, and in some cases insignificant, gains for men (Congressional Budget Office/ National Commission for Employment Policy [CBO/NCEP], 1982, General Accounting Office, 1982, Westat, Inc., 1981; Taggart, 1981). These studies also found the largest earnings gains among those with the lowest earnings prior to participation in CETA.

Two of the evaluations suggest this increase in post-program earnings was due to an increase in the number of hours worked, rather than an increase in the hourly wage (CBO/NCEP; Taggart). As a result, people who already had a relatively stable attachment to the workforce but who chronically earned low wages did not benefit as much from training. This latter group, the research showed, is predominantly male.

One of the studies (CBO/NCEP) found no significant difference in the impact of different types of training on the subsequent earnings of participants. Other evaluations, however, singled out on-job-training as the most effective, followed by classroom training, and finally, by work experience, which in some cases, had no positive impact at all on participants' later earnings. As for subgroups, the research most commonly cited (Westat, 1981) says white men increased their annual earnings (as compared with a similar group of nonparticipants) by $750 after on-job-training, $440 after classroom training, and were negatively affected after work experience, showing a drop in earnings of $450. Minority men increased earnings by $1,150 after on-job-training, $200 after classroom training, and showed no change in earnings after work experience. White women who participated in either on-job-training or classroom training showed increased earnings of $550 and an increase of $50 after work experience. Minority women increased earnings by $1,200 after on-job-training, $500 after classroom training, and $300 after work experience. These results were based on individuals' earnings one year after training. A follow-up study two years after training showed these patterns prevailed for men. However, women CETA participants continued to gain over their comparison group in the second year (Westat, 1982).

While the research showed on-job-training to be most effective for all participants, it found the highest gains among trainees with low pre-program earnings. People who participated in CETA during FY 1976 and earned $2,000 per year or less in 1973 and 1974 and $4,000 or less the year prior to CETA enrollment increased their 1977 earnings by $1,300 and their 1978 earnings by about $800 after on-job-training. This same group of low-earners increased earnings by $600 in 1977 and $420 in 1978 after classroom training and showed no change in 1977 and a drop of $200 after work experience. Higher earners, who had earnings of at least $4,000 annually in 1973 and 1974, showed an increase of $300 in 1977 and $400 in 1978 after on-job-training, and showed a drop in earnings, as compared with a group of similar non-CETA participants, of $800 in 1977 and $203 in 1978 after work experience.

The longer certain participants, particularly women and low-earners, stayed in training, the greater the impact on improving subsequent earnings, according to the research. One study (CBO/NCEP) found no correlation between longer training and higher earnings gains for men, and another study (Westat, 1981) found that longer training was associated with a decrease in subsequent earnings, as compared with non-participants, for people whose pre-CETA earnings had been relatively high. In the second year after training, however, higher earners began to close the gap in earnings with their comparison group (Westat, 1982).

For some participants, particularly those with a stable attachment to the work force before enrollment in CETA, the opportunity costs of training may outweigh the benefits, according to these findings. The researchers in one study (CBO/NCEP) suggest that this group may benefit from longer, more intensive training that results in new or upgraded job skills rather than simply improved access to the labor market.

Looking at the impact of training on youth, one study (Westat, 1981) found the largest positive impact of on-job-training on 17-18 year-olds, who increased earnings by $1,250 as compared with a similar group of non-CETA participants. This age group showed a $250 earnings gain after classroom training and no change after work experience. Younger trainees, between the ages of 14 and 16, showed a $600 increase in earnings after on-job-training, a $300 increase after classroom training and a drop in earnings, as compared with non-participants of $100 after work experience. Trainees aged 19 to 21 showed a $700 increase after on-job-training, $250 after classroom training and a decrease of $15? after work experience. For all trainees under the age of 22, the impact of training generally lessened somewhat two years after training, while the impact generally increased for those 22 and older (Westat, 1982).

Assessing the benefits of training specifically for youth is difficult because earnings gains are not necessarily the most appropriate measure of success. Youth unemployment, traditionally higher than joblessness among adults, is concentrated in a small proportion of young people, who are disproportionately black, and both economically and educationally disadvantaged. Because of the complex nature of the youth unemployment problem, Congress in 1977 enacted the Youth Employment and Demonstration Projects Act (YEDPA), which authorized under CETA a variety of experimental approaches to combatting youth joblessness.

An analysis of youth training programs prior to enactment of YEDPA (Stromsdorfer, 1980) concluded the following: work experience alone does not improve the employability or school attendance of youth and may be more effective when combined with such other services as placement assistance and skill training. Although skill training is effective, its impact deteriorates over time. To be most effective, skill training must be tied to known job opportunities. This analysis further states that placement services are effective for youth, while services aimed at changing personal values and personality traits such as motivation are generally not successful. Success in the workplace, according to this analysis, is directly related to basic writing, communication and computational skills.

This latter finding was recently confirmed by another study (GAO, 1982) which concluded the labor market problems of youth are due in large part to a lack of success in school. Another recent evaluation (CBO, 1982) further determined that gains in the employability of disadvantaged youth seem to be linked primarily to the amount of time spent in education and training, so that work experience, while not necessarily useful on its own, can be important in providing the motivation to continue in a training program. This analysis concluded that substantial gains in employability for disadvantaged youth are possible through a combination of such services as remedial education, well-structured work experience and training.

One program which provides this combination of services and is generally considered to be effective is Job Corps, which was authorized originally in the 1960s and continued under CETA. Job Corps, which offers intensive remedial education and training in a residential setting, also is the most expensive of the youth employment programs, costing about $14,000 per full-time full-year training slot, but its benefits have been shown to exceed its costs (CBO).

The largest single experiment authorized under YEDPA also attempted to provide a combination of services and used work experience as an incentive for youngsters to remain in school. The Youth Incentive Entitlement Pilot Projects guaranteed full-time summer and part-time year-round jobs for 16-19-year-olds who either promised to remain in school or, in the case of dropouts, to return to school. An evaluation of the entitlement program (MDRC, 1980) found it not only provided youths with jobs when they would have otherwise been unemployed, but it also had a significant positive effect on school retention rates among participants and on the rate of returning to school for drop-outs. According to another study, the estimated cost per service year of providing full-time summer and part-time year-round jobs for participants was $4,900 in 1982 (CBO).

However, the entitlement program also tested the concept of financial incentives for private employers to create jobs for youth. Among businesses offered a 100 percent wage subsidy for hiring entitlement youth, 18 percent participated. The participation rate for businesses offered a 75 percent wage subsidy was 10 percent, and 5 percent for firms offered a 50 percent wage subsidy (MDRC, 1981).

Private Sector Training

The Job Training Partnership Act is built on the concept of private industry involvement in the planning and administering of job training activities, an idea which was tested under CETA in the title VII Private Sector Initiatives Program (PSIP). Under title VII, which was enacted in 1978 and did not become fully operational until 1980, Private Industry Councils (PICs) were established in prime sponsor areas throughout the country and given authority to plan the spending of title VII funds.

An evaluation of private sector involvement in training programs during the 20 years preceding enactment of PSIP (Ripley/Franklin, 1981), concluded the following: business people and job training professionals will not automatically work together without one side or the other taking the initiative, generally the job training professionals. The extent to which private industry will become involved in training depends in large part on the general state of the economy and the health of the specific industry. Participation in on-job training, in particular, is highly sensitive to fluctuations in the economy.

Because of the short duration of the Private Sector Initiative Program, it is difficult to generalize about the program's success. However, an evaluation of the program generally confirmed these findings (Ohio State, 1982). Business support for the program did not happen automatically but developed gradually over time, varying in intensity from area to area. The program worked best in areas where the Private Industry Council was healthy, with well-defined goals, active members and an active chairman, and was visible and credible in the local business community.

Department of Labor reports show that title VII trainees were somewhat older and more male than participants in regular CETA training under title II-B and C (see appendix G). As might be expected, the mix of services under title VII also was different from title II-B and C, with 35 percent of title VII participants in on-job-training, compared with 12 percent of title II-B and C participants in FY 1981. Virtually no title VII participants enrolled in work experience, while 36 percent of title II-B and C participants took part in this activity. Of title VII participants who terminated training in FY 1981, 53 percent entered jobs and 11 percent were classifed as "other positive" terminations, meaning they returned to school or entered another non-CETA training program. Among title II-B and C terminees in FY 1981, 43 percent entered jobs and 22 percent were other positive terminations. This difference may be due to the fact that title II-B and C served somewhat younger trainees who [illegible]ld be expected to return to school or another training program, rather than [illegible] job.

Public Service Employment (PSE)

Although the Job Training Partnership Act specifically prohibits the use of training funds for the disadvantaged for public service employment, a brief

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discussion of PSE is included here because of its overriding importance under CETA. The original CETA authorized public service employment as an adjunct to training for the disadvantaged, but countercyclical PSE quickly grew to dwarf the rest of CETA as recession shifted public attention to the need for job-creation. However, along with rapid expansion of public service employment came mounting criticism due to a perception of mismanagement, fraud, waste and abuse in the program.

Amendments in 1978 attempted to redirect the public service employment program on more disadvantaged individuals, lowered wages paid in the program, required training in addition to employment, limited the duration of jobs, and strengthened administrative procedures at the Federal and local level. An analysis of the impact of the 1978 amendments (Mirengoff, et. al., 1981) found they were highly effective in achieving their goals. Participation was limited almost exclusively to the economically disadvantaged, which also reduced the temptation for local officials to substitute CETA workers for regular public sector employees. The future employability of participants was enhanced by provisions requiring individual employability development plans for each participant and a formal training component. The program also became less vulnerable to fraud and abuse, by provisions which made prime sponsors liable for improper expenditures and by stricter monitoring and auditing procedures.

However, this analysis also found the 1978 amendments achieved these goals at a price. For example, the program became more heavily bureaucratized, regulated and controlled from the Federal level, which was the antithesis of the original CETA legislation's purpose. Further, the shift toward less skilled and more disadvantaged participants, coupled with a worsening economy, resulted in a drop in the rate of participant transition into unsubsidized employment after their public service job ended, despite the additional training provided.

The lower skill level of PSE enrollees also resulted in their jobs being less useful to the community, and the lower wages and shorter duration of the jobs made them less useful to the participants.

As for the impact of public service employment upon participants' later earnings, the follow-up available thus far is based on participants in FY 1976, which was before the 1978 amendments focused eligibility requirements more specifically on the economically disadvantaged (Westat, 1981). Nonetheless, the findings are similar to those for other forms of training programs, discussed earlier. Women showed the largest earnings gains, as compared with a group of non-participants, as did individuals with the lowest pre-program earnings. White women had increased earnings of $950 after PSE one year after termination. Minority women increased earnings by $650, while white men increased earnings by $100 and minority men showed a drop of $50. Two years after enrollment in PSE, white women showed increased earnings of $1,182, minority women had increased earnings of $984, white men showed increased earnings of $299, and minority men showed a drop of $654 (Westat, 1982). Low earners showed an increase in earnings one year later of $900, while higher earners showed a drop in earnings, as compared with non-participants, of $250. Two years later, low earners had increased earnings of $739, while higher earners showed a reverse in the negative impact of PSE exhibited the first year after training and showed an increase of $90.

CREATING JOBS: ISSUES, EVIDENCE, AND IMPLICATIONS

(By Irwin Garfinkel and John. L. Palmer)

During the mid-1970s both unemployment and inflation in the United States set post-World War II record highs. Even after several years of vigorous recovery from the 1974–75 recession both are well in excess of comfortable rates. And many economists maintain that the persistence of high levels of structural unemployment may make it difficult to lower unemployment much below 6 percent through conventional macroeconomic policies without reaccelerating inflation.[1] (Although unemployment rates are generally lower in Western Europe, a similar problem exists there.) For these reasons, selective federal policies to promote directly the creation of jobs are increasingly seen as desirable means of promoting two related objectives—reaching and sustaining low levels of unemployment without excessive inflationary pressure and insuring minimally adequate incomes for families with workers. These approaches have two distinctive characteristics: federal funds are granted to public or private employers conditioned on their performance in pro-

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1. In the 1960s structural unemployment was viewed primarily as resulting from a mismatch (in education, skill, work experience, or geographical location) in employers' job requirements and the characteristics of the unemployed. More recently the focus has been on subgroups of the labor force, such as nonwhites, youth, and the long-term unemployed, whose unemployment rates are persistently far in excess of the average. (For example, teenagers' unemployment rates are generally about three times the average, nonwhites' twice; even when overall unemployment is as low as 5 percent, 10–15 percent of the unemployed are out of work for three months or longer.) Although the higher-than-average unemployment rates are due in part to mismatching, they can also be traced to discrimination and the particular labor market behavior of some of the groups involved, such as the high rates of labor force entry and exit by teenagers and women.

viding employment; and restrictions are placed on eligibility and, possibly, other aspects of employment.[2]

Such job creation programs can take many forms. Until recently they had been used intensively in the United States only during the Great Depression. At that time, a large portion of the labor force was at one time or another in federally subsidized and administered public employment programs, generally in outdoor work performing tasks ranging from construction to sanitary maintenance. On the other hand, many Western European countries have made use of public employment programs or employment-related subsidies to private employers for structural purposes since the 1950s.[3] With the high unemployment rates of the 1970s, job creation programs once again have been heavily used in the United States. The two predominant types are state and locally administered public service employment programs and employment tax credits for private employers.[4]

Public service employment in the United States has evolved from very limited use in the late 1960s for particular groups of disadvantaged workers into several major programs with a mix of countercyclical and structural objectives. The federal budget for 1978 provides for 725,000 public service jobs for previously unemployed workers under titles 2 and 6 of the Comprehensive Employment and Training Act (CETA) at a cost of about $6 billion. The programs are administered by designated agents (local prime sponsors) of state and local governments. Almost $1 billion more is being spent on public employment projects for unemployed youth, and smaller amounts on other special groups.[5] Other large expenditures

2. These features differentiate direct creation of jobs both from ordinary government expenditure activities and from government actions such as income tax cuts that affect the job market only indirectly.

3. Examples of European programs can be found in the papers by Haveman and Hamermesh in this volume.

4. The term *public employment* is intended in this paper to be broader than public service employment. It also can include specially created, subsidized jobs in the public sector that involve labor-intensive activities other than the delivery of public services. This use of the term is approximately consistent with Kesselman's use of the term *work relief*. Public works, on the other hand, are generally considered skill- and capital-intensive construction projects that are contracted out to the private sector; such policies are not considered in this volume. However, public works that involve direct hiring onto public payrolls for relatively labor-intensive construction (as was done in the Great Depression) fall under our use of the term *public employment*.

5. For more detail on these programs and proposals for CETA, see John L. Palmer, "Employment and Training Assistance," and "Employment and Income

on public employment are being considered by Congress in conjunction with welfare reform, and passage of the Humphrey-Hawkins full employment and balanced growth bill would increase the likelihood of large-scale, long-term use of public employment for broader purposes.[6]

Employment tax credits have only recently come into use in the United States. They are simply employer wage subsidies administered through the federal income tax system. The work incentive (WIN) tax credit, first passed in 1971 and then expanded in 1975, reimburses private employers for a flat percentage of the first year's wages they pay to any recipient of aid to families with dependent children (AFDC). It has operated only on a very small scale. A second, temporary measure, passed as part of the economic stimulus package in 1977 and estimated to cost $2.5 billion in 1978, provides a tax credit to private employers for wages paid in excess of a base related to their prior year's wage bill. The credit applies only to wages that are less than half the median annual level; thus it favors low-wage workers. Many other forms of employer wage subsidies have been proposed recently that could cost several billions of dollars per year. In many instances they are targeted on specific groups of workers—such as youth and the long-term unemployed—with particularly difficult employment problems.[7]

Despite the recent expansion of the use of and interest in federal programs to create jobs, their efficacy is in considerable dispute. This is in

Security," in, respectively, Joseph A. Pechman, ed., *Setting National Priorities: The 1978 Budget* (Brookings Institution, 1977), pp. 143–75, and *The 1979 Budget* (1978), pp. 61–90.

6. The Carter administration in 1977 proposed providing over a million jobs in public service employment for welfare recipients at an annual cost of about $11.5 billion by 1982; congressional proposals also provided for large numbers of public service jobs. Under the Humphrey-Hawkins bill, public employment would be one of many tools prescribed but not mandated to facilitate increased employment. Any program that approached government-as-employer-of-last-resort for all members of society would cost several times as much as the jobs component of Carter's welfare proposal, which is limited to principal earners in families with children. Precise estimates are very sensitive to the state of the economy, assumed wage rate, and other crucial program parameters.

7. See Palmer, "Employment and Training Assistance," for more details on both the WIN and temporary tax credits. Among other proposals is a part of the President's March 1978 urban policy initiative that would provide a tax credit of $2,000 for the first year of employment and $1,500 for the second for all disadvantaged youth (between eighteen and twenty-four years old) hired into full-time employment by private employers and retained for at least three months. It would cost an estimated $1.5 billion annually.

part due to a dearth of contemporary analysis on this subject. (The voluminous literature concerned with the Great Depression experience has not been well integrated into current thought.) Not surprisingly, views differ widely on the degree of reliance that should be placed on jobs programs of various types. For each of the policies of interest the following questions need to be answered. How many jobs can be created for a given expenditure or budgetary impact? How fast will employment be increased and with what degree of inflationary pressure? Who will get the jobs and what effect will this have on the overall composition of employment and unemployment? What net additional output will be provided and what will be its value to society? What will be the effect on the employment and earnings of target groups? How do answers to these questions vary between the short term and long term and with specific aspects of the program design?

The conference reported on in this volume was an attempt to shed light on several of these questions and the issues underlying them. Both wage subsidies to private employers and public employment programs were considered, although the emphasis was on the latter.[8] This paper draws on the conference papers, formal and informal discussion at the conference, and other analyses to present an overview of the current state of knowledge of direct job creating policies. The first two sections address questions relevant to the objective of achieving and sustaining higher levels of employment without excessive inflationary pressure. In particular they discuss whether direct job creation policies are superior to more conventional alternatives for reducing cyclical unemployment and how capable they are of reducing structural unemployment. The third section focuses on the microeconomic efficiency of public employment programs and compares their efficacy with that of income maintenance programs. Policy implications are discussed in the final section.

Countercyclical Approaches

Jobs programs in the United States have been used primarily for countercyclical purposes during recessionary periods. They are thus competi-

8. In fact, public employment programs can be viewed as a special case of employer wage subsidies—one that approaches 100 percent and is limited to the nonprofit sector. (Under CETA, local prime sponsors may contract with private nonprofit organizations to provide public service jobs. Also, the federal subsidy may be supplemented by other monies to achieve higher wage rates.) Several of the conference papers take this approach in their analysis.

tors of such fiscal measures as general tax cuts and expenditure increases, and their consequences should be compared against those of the other policy alternatives. Five areas of concern for both public employment programs and employer wage subsidies are discussed here; they are the employment impact for each dollar of increase in expenditures or in the federal deficit, the timing of stimulative effects, the value of the additional output, distributional consequences, and inflationary consequences.

Bang for the Buck

As Baily and Tobin note in this volume, there is considerable policy interest in the relative strength of the "bang for the buck" achieved by various countercyclical fiscal policy measures—where the bang is the increase in employment or in the gross national product and the buck is the increase in federal outlays or in the deficit. Increases in government expenditure are usually presumed to have a greater stimulative effect than equivalent decreases in taxes because the initial injection of monies into the economy purchases goods and services, whereas a portion of a tax cut may be saved rather than spent. Increases in expenditures for public employment and in other forms of federal spending are more difficult to compare, however.

The effect of public employment expenditures on total employment may differ from that of general expenditures because public employment expenditures are more highly concentrated on labor, program participants may have a different, presumably higher, marginal propensity to consume out of disposable income, and they may face marginal tax rates that deviate substantially from those the general population faces, taking into account reductions in government transfers as well as increased taxes. (If public employment expenditures cause a reduction in unemployment insurance or welfare payments, GNP and employment multipliers will be less.)

Baily and Tobin present a rigorous formulation of these relationships and illustrate some possible outcomes by assuming numerical values for the relevant parameters. They demonstrate that the question of whether public employment programs are a better bargain than other countercyclical fiscal policies cannot be determined a priori, but is at bottom an empirical issue. Although they do not pursue this issue at length, their rough empirical estimates indicate that the gross national product and employment effects generally will be larger for expenditure increases than broad tax cuts, and the employment effects larger for public employment than other government expenditure increases, unless the public employment is carefully targeted on recipients of transfer programs. In this latter case the employment per dollar increase in the deficit is still likely to be larger for public employment, but the dollar increase in the deficit will be less than the increase in public employment expenditures because of the decline in transfer payments.

But, as Baily and Tobin note, the effect of public employment expenditures on employment may not be as advantageous as it appears, because a sizable portion of the new jobs generated are the specially created public jobs, which may be less socially useful than jobs outside the program. Also, despite federal restrictions, public employment expenditures in the form of federal categorical grants to state and local governments may increase net employment by far less than the number of subsidized jobs, since these governments have every incentive to use the grants to underwrite employment that they would have undertaken otherwise and either direct their own revenues to other state and local priorities or reduce their taxes.

In his paper in this volume, Johnson reports that his earlier research suggests that, for public service employment programs like those of the early 1970s, this fiscal substitution increases with time, perhaps becoming as high as 60 percent within a year after the grants have been made and still growing after that. Although the precise degree of substitution remains a matter of controversy, there is little doubt that it is sizable.[9] (Congressional concern over this issue led to changes in 1976 in the public service employment programs under CETA titles 2 and 6. A requirement was imposed that most of the employment be in special projects of short duration, where there presumably would be less potential for fiscal substitution than with more permanent jobs identical to those regularly performed by state and local employees.[10])

9. Michael Wiseman, "Public Employment as Fiscal Policy," *Brookings Papers on Economic Activity, 1:1976*, pp. 67–104, summarizes the econometric literature on this issue. More recently, Michael E. Borus and Daniel S. Hamermesh, "Study of the Net Employment Effects of Public Service Employment—Econometric Analyses," briefing paper, NCMP 6-3-78 (National Commission for Manpower Policy, February 1978; processed), in assessing this literature suggest that specific estimates of the fiscal substitution effect are quite sensitive to the specification of the models. A preliminary report of a study for the National Commission for Manpower Policy based on field surveys of state and local government spending suggests a lower estimate of fiscal substitution than the econometric studies.

10. Johnson suggests in his paper that the federal government administer the

While fiscal substitution may hamper the effectiveness of a countercyclical public employment program, it is important to keep it in perspective. If the program is not to be in effect very long, the degree of substitution may be modest. And the result of even full fiscal substitution is not the loss of all fiscal or employment stimulus. In such a case the potential effect of the public employment program is diluted to the strength of revenue sharing—to whatever would be yielded by the mixture of increased expenditures, larger surpluses, debt retirement, and tax reduction that would result from larger unrestricted revenue sharing grants.[11]

Because employer wage subsidies or employment tax credits provide a direct inducement to employers to expand their labor force, they should have a greater employment impact (per dollar of reduced revenue) than most other forms of tax cuts, particularly income tax cuts. Their effectiveness depends primarily on the form of the subsidy, a... the responsiveness (elasticity) of employers' demand for labor to a change in the cost of labor.

Hamermesh argues that the most effective wage subsidy for countercyclical purposes is one that is noncategorical—not restricted to workers with particular demographic characteristics—and marginal—applied only to employment in excess of some predetermined base related to each firm's previous employment level. A noncategorical subsidy will encourage greater utilization of all labor. Applied marginally, it will minimize the subsidization of employment that employers otherwise would have funded entirely on their own—a consequence of a wage subsidy analogous to fiscal substitution in public employment programs.[12] Although this substitution can be controlled to some extent, it cannot be avoided entirely.

program and determine the job mix to restrict such fiscal substitution. While this has some advantages, it has the overwhelming liability for countercyclical purposes of requiring the creation of a new administrative mechanism.

11. There is some evidence that, at least in recent years, state and local governments used growing federal grants to accumulate surpluses. Such behavior would greatly reduce the stimulative effects of any public service employment programs that involve considerable fiscal substitution. See Edward M. Gramlich, "State and Local Budgets the Day after It Rained: Why Is the Surplus So High?" *BPEA, 1:1978*, pp. 191-214.

12. Hamermesh uses the term *windfall* to describe that portion of subsidy costs that employers would have supplied in the absence of the subsidy. Nevertheless, that part of the expenditure should still have indirect stimulative effects and, in fact, to the extent that the economy is competitive, the windfall should eventually be passed on to consumers in the form of lower prices. However, it may still be a serious liability to the political attractiveness of an employer wage subsidy.

In order to quantify the likely consequences of a noncategorical, marginal wage subsidy, Hamermesh applies a simulation model to the private, nonfarm sector of the economy. Because there is considerable uncertainty over the appropriate value of the elasticity of demand for labor, he employs a wide range of estimates in his simulations, along with different assumptions about the employment base that defines the marginal nature of the subsidy.[13] His results suggest that the cost-per-job-created of a temporary wage subsidy can compare quite favorably with current public service employment programs. When the base is the firm's previous year's employment, the portion of the subsidy going for workers who otherwise would have been employed is about half the total, which also is competitive with the consequences of public employment programs; for lower bases this proportion is substantially larger.[14]

From a purely economic point of view, there is no reason to apply the stimulative effect of countercyclical policies as a primary criterion for deciding among alternatives with equivalent deficit impacts. The appropriate goal is the highest growth path of GNP and employment (or some other appropriate measure of social welfare) compatible with acceptable rates of inflation. If other forms of stimulus better promote this objective than public employment programs, they should be preferred even though they might require temporarily larger deficits. As several conference participants noted, however, political constraints on the size of the budget deficit are often more binding than economic ones, and there is strong competition among alternative uses of potential federal revenues. This may necessitate placing considerable importance on spending economies.

Timing of Stimulative Effects

Policies intended to meet countercyclical needs must be able to expand and contract rather quickly over the business cycle, if they are to have the desired effect. Once congressional approval is obtained, tax cuts

13. Hamermesh adjusts empirical estimates of elasticity downward since they are based on permanent subsidies, and he assumes that employer responses will be weaker to a temporary reduction in the costs of labor. Also, he argues that the elasticity is likely to be at its highest in the recovery phase of a moderate recession in contrast to a deep recession or periods of relatively full employment.

14. Under certain reasonable assumptions, the higher the base is set, the lower will be the windfall as a percentage of total subsidy costs. But the lower also will be the net employment effect and the more unpredictable the costs. Such uncertainty about the ultimate cost of the subsidy makes it less attractive as a countercyclical policy.

clearly can be implemented quickly, as can increases in government expenditures for such programs likely to be singled out for countercyclical purposes as general revenue sharing or one-time payments to social security or welfare recipients. It also has been demonstrated that public employment programs can be implemented fairly rapidly[15]—although haste may compromise other desired objectives. Phasing down economic stimuli in a timely fashion, however, is often more problematic. It is generally not a difficult issue with tax cuts—in large part because the built-in progressivity of the federal income tax automatically increases revenues as a percentage of gross national product as the economy grows. But political pressures make it difficult to phase down governmental expenditures—particularly when they are directly subsidizing jobs and state and local governments, as in the case of public service employment.

How quickly the stimulus of an employer wage subsidy is felt depends on the extent to which it is subsidizing labor that would have been employed in any event, how rapidly employers are induced to expand their employment, and how businesses alter their practices with regard to investment, payment of dividends, and so forth. All of these are matters of some uncertainty. In general, however, the timing of the effects of a wage subsidy can be expected to be on a par with that of other forms of general business tax cuts, perhaps somewhat quicker if a large portion of the total subsidy induces additional employment. There is no experience to suggest how politically difficult it would be to phase out a wage subsidy once the need for it had passed.

Value of Output

The choice among a roughly equal expansion of the private sector, the regular public sector, and public employment programs should depend in part on the value of the additional output each produces, including future increases resulting from any higher productivity of target groups. One part of Kesselman's paper in this volume focuses on this issue. After

15. An expansion of nearly 400,000 jobs under CETA titles 2 and 6 was accomplished in less than one year after the passage of the economic stimulus package in early 1977. Emergency public works programs, on the other hand, are notorious for the slowness with which actual expenditures are made. Studies of their experience in the 1960s and early 1970s indicate their effect is at best neutral and may even be procyclical on balance. In the expansion of emergency public works included in the 1977 economic stimulus package, steps that were taken to facilitate faster expenditure of funds appear to be having some success.

examining the vast literature on the public employment programs of the Great Depression, Kesselman concludes that those programs contained little training of relevance to regular jobs or other efforts to move people up job ladders and into regular employment. Moreover, he claims that the value of the goods and services produced by those programs was substantially less than would have been produced by an equally stimulative fiscal policy—such as a tax cut or wage subsidy—that emphasized expansion of the private sector.

Kesselman argues that the public employment programs' output was produced inefficiently. The programs unduly favored directly hired as opposed to contracted workers, labor versus the use of materials and equipment, and less productive versus more productive workers. Because they did not have to meet the private market test (that is, consumers' willingness to purchase the goods or services produced), public employment programs' output was often of low priority to society. Presumably, the public would have preferred more consumption goods, such as food and clothing, to most of the public works produced at the time, however useful some of the latter became for subsequent, far wealthier generations.

These criticisms appear to be valid, though not with the same force, for the countercyclical public service employment programs of the 1970s.[16] This should not be surprising since many of the 1930s pressures that Kesselman observed are also present today. Indeed, current federal restrictions preventing fiscal substitution probably further reduce the value of the program output since they encourage the expansion of public output for which voters have not been willing to raise taxes. (On the other hand, special public employment programs may encourage valuable innovation in the provision of goods and services by stimulating creativity in public officials.) Those restrictions, combined with the need for a countercyclical program that can be rapidly expanded and subsequently contracted, make it difficult to provide jobs that have high social value, training content, and links to regular employment. Assuming that

16. See, for example, Sar A. Levitan and Robert Taggart, eds., *Emergency Employment Act: The PEP Generation* (Olympus, 1974), pp. 20–25 and 32–40; and Michael Wiseman, "On Giving A Job: The Implementation and Allocation of Public Service Employment," paper 1 in *Achieving the Goals of the Employment Act of 1946—Thirtieth Anniversary Review*, vol. 1, prepared for the Subcommittee on Economic Growth of the Joint Economic Committee, 94:1 (GPO, 1975), pp. 11–14. Of course, given the prolonged and widespread unemployment of the Great Depression, simple maintenance of job skills and work habits was a notable achievement. More is expected of today's programs because they are operating in a much more favorable economic climate.

employer wage subsidies are successful in stimulating additional employment and output, they are more likely to produce economically efficient outcomes. In addition to insuring that the added output meets the market test, they have the advantage of creating jobs directly in regular employment, so workers are not dependent on making a transition from special temporary programs.[17]

At the conference, some discussants took issue with Kesselman's assertion that the public employment programs' bias toward labor intensity necessarily signified a socially inefficient outcome. In the midst of considerable unemployment, they argued, prevailing wage rates might far exceed the value of alternative uses of labor. In such instances, a strong case can be made for a countercyclical government policy that lowers the relative price of labor to employers. This, however, argues more strongly for some fractional across-the-board employer wage subsidy for all regular employment, public as well as private, than for full subsidization of specially created jobs in the public sector.

Finally, if it is believed—as John Kenneth Galbraith has argued—that the U.S. economy is systematically biased toward a smaller public sector than is necessary to optimize social welfare, then favoring creating jobs in the public sector could help to right an imbalance between public and private production and consumption. Again, however, there is no reason on these grounds to prefer specially created public employment programs to a general subsidy for regular public employment.

Distributional Consequences

One distinguishing feature of both employer wage subsidies and public employment programs is their presumed usefulness for geographic and demographic targeting of job opportunities created by the stimulus. Although there is political pressure during a recession for all localities to receive some such assistance, criteria can be developed for providing greater shares (per capita) to areas that have relatively high unemployment or are otherwise distressed. Such formulas have been used in distributing public service employment grants under CETA, but their fair-

17. A large portion of private sector workers who become unemployed over the business cycle are only temporarily laid off from jobs to which they expect to return. An employment wage subsidy might operate largely by reducing the numbers of such layoffs in the downswing and increasing the speed of rehiring in the upswing.

ness has been attacked. Their shortcomings are due in part to the high degree of unreliability in the measurement of area unemployment rates.[18] (Regionally targeted employer wage subsidies have not been employed in the United States; however, as Hamermesh notes, they have been used both in Japan and in the United Kingdom.[19]) Other forms of increases in federal expenditures for countercyclical purposes, of course, also can be targeted geographically, whereas tax cuts do not generally lend themselves to this.

The demographic targeting of job creating programs results primarily from their ability to prescribe which workers benefit from the direct effect of the program. For example, public service employment programs in the United States have focused on such broad target groups as the long-term unemployed and members of low-income families and on even narrower categories, such as welfare recipients or disabled veterans. Similar types of targeting are often proposed for employer wage subsidies. Such targeting is clearly a crucial consideration for programs motivated primarily by structural concerns but is of less relevance to countercyclically motivated policies.

If the major objective of the government action is to insure that lower income groups generally benefit from the stimulus, those groups could be made the focus of tax cuts or of transfer program increases. However, even if the distribution of the additional jobs is important, it is difficult to insure that countercyclical programs focus on disadvantaged target groups. This is particularly true for public employment programs where state and local governments are the administering agents. As Johnson notes, despite strong priorities in the regulations, representation of disadvantaged target groups in the public service employment programs of the early 1970s did not differ significantly from their representation in the entire labor force. This should not be surprising. Employers generally select the workers they view as most qualified from the pool of those eligible.[20] Since the skill and education requirements for state and local employment are well above the average for the labor force, and the pool of unemployed is far more representative of the general labor force during

18. Martin Ziegler, "Efforts to Improve Estimates of State and Local Unemployment," *Monthly Labor Review*, vol. 100 (November 1977), pp. 12–18.

19. Additional discussion of the use of such subsidies in Western Europe can be found in James L. Sundquist, *Dispersing Population: What America Can Learn from Europe* (Brookings Institution, 1975).

20. Kesselman notes this tendency in the public employment programs of the Great Depression.

a recession, the "creaming" of the labor pool would leave disadvantaged workers in their usual position. Analogous problems of reaching the desired target group exist for wage subsidy programs if the eligible population is broadly defined.

Although eligibility criteria could be more tightly drawn in favor of disadvantaged target groups, the consequence of a rigid policy may be a less effective countercyclical tool.[21] This is partially because drawing from a much smaller pool of eligible workers will slow the speed of implementation of public employment programs or the additional hiring caused by wage subsidies. The employment of more marginal workers requires greater training and ingenuity in production and, in the case of public employment, in output selection. These present very difficult challenges even under structurally oriented policies that can have a long lead time and continuity of operation. The rapid phasing in and out of countercyclical job creation programs exacerbates the difficulties.

Hamermesh assumes that a marginal employer wage subsidy or tax credit that subsidizes a fixed percentage of all wages would provide additional job opportunities to a population with demographic characteristics similar to those of workers who typically become unemployed in the downswing or employed in the upswing of a cycle. Though the program would favor low-wage workers because they are more likely to become unemployed than others, it would not favor those with the lowest wages nor those who might be thought of as particularly hard to employ or disadvantaged. Thus, it is unlikely that such a subsidy would have any distributional advantage over conventional macroeconomic policy tools.

Hamermesh suggests that a fixed dollar (per hour of work) subsidy would be superior in this regard, since it would underwrite a higher percentage of low relative to high wages. Although he does not simulate the distributional effects of such a subsidy, he believes that it would have a strong bias in favor of the lowest wage workers. Even so, employer subsidies need not be superior on distributional grounds to such conventional countercyclical tools as tax cuts and expenditure increases—which can

21. Congressional concern over the characteristics of participants in the public service employment program under CETA titles 2 and 6 in the 1974–75 recession led to legislation in 1976 that required a high percentage of all slots to go to those from low-income families who were unemployed fifteen weeks or longer, or to welfare recipients. Johnson is pessimistic about the ability of even such measures as these to alter substantially the distributional mix of total additional state and local employment.

also be targeted—unless it is the distribution of jobs, per se, that is at issue.

Finally, whereas the benefits of a countercyclical public employment program would be confined to employees in the public sector, a general employment subsidy that is available to public as well as private employers would help to stabilize the employment of all workers. In fact, employment typically is more cyclically unstable in the private than in the public sector.

Effect on Inflation

Direct job creation programs, it is often argued, should result in less inflationary pressure than alternative fiscal stimuli of comparable magnitude because of their differential effects on labor markets. For example, Baily and Tobin maintain that this is likely to be true of policies directed at groups of workers or geographical areas whose unemployment rates are much higher than the average. The inflationary effects of programs motivated by pure countercyclical concerns are less relevant, since such programs should be implemented only during periods of high unemployment and phased out before labor market factors become a major inflationary factor. (Also, as noted above, there are arguments against narrow targeting of programs countercyclically motivated.) However, inflationary consequences clearly should be a crucial consideration at fuller levels of employment when tightness in labor markets can exert considerable inflationary pressure.

One characteristic of employer wage subsidies gives them a major advantage over most other forms of fiscal stimulus during periods of substantial cyclical unemployment combined with inflation. Over time, increases in the hourly compensation costs of labor are reflected in commensurate increases in the general price level, adjusted for productivity advances. Since employer wage subsidies directly reduce labor costs, they can be expected to be less inflationary than alternative policies for achieving equivalent increases in employment and output, other things being equal. This should allow the federal government to take a more expansionary stance, since concern over inflation is one of the most crucial constraints on macroeconomic policy.[22]

22. Cuts in payroll taxes are advocated for a similar reason. See Arthur M. Okun, "The Great Stagflation Swamp," *Challenge*, vol. 20 (November–December 1977), pp. 6–13, for a discussion of the value of policies that reduce inflation from the supply side.

Macroeconomic Effects of Structural Actions

Structurally oriented policies aimed at creating jobs are even more difficult than countercyclical ones to analyze. They are the policies intended to aid particular groups of workers or potential workers whose employment opportunities are severely limited, or policies designed to reduce aggregate unemployment with less inflationary consequences than conventional macroeconomic policies. Their objectives are to improve both equity and the macroeconomic performance of the economy. The former, needless to say, includes the distribution of employment among workers as well as the distribution of income.[23]

Not only are the consequences of structurally oriented programs difficult to assess, but there is a wide set of policy alternatives to which such job creation policies ought to be compared in etermining what role they best can play. For example, affirmative a .ion, regional development, worker mobility, industry relocation, and .nstitutional training programs are but a few of many approaches th might be helpful in upgrading employment opportunities for commo.. target groups. The ideal degree of emphasis to be put on job creation policies as a means of combating structural problems should depend on their consequences relative to alternative policies as well as relative to doing nothing. Similarly, with respect to a more narrow income-maintenance objective, the consequences of job creation policies, including the value of work per se, should be compared to those of various forms of direct cash transfers.

None of the conference papers undertook such an ambitious task. Nevertheless, a number of them did come to grips with many of the concerns that are relevant to such an assessment. The Johnson and Baily-Tobin papers treat structurally oriented policies to create jobs from a macroeconomic perspective. The principal question addressed here is under what conditions these policies can improve the relation between inflation and unemployment.

23. For the most part, the targeting requirements of the two objectives are similar. The papers and discussion at the conference focused on the efficacy of job creating policies as a method of reducing high unemployment rates among the unskilled. Structural programs, of course, may be targeted on skilled workers who are temporarily in excess supply—such as engineers in Seattle when Boeing cut back its employment—in which case the targeting requirements of the two objectives would not be the same.

Improving the Relation between Inflation and Unemployment

Conventional measures for stimulating the economy can make major short-term inroads into structural (and even high frictional) unemployment while yielding an expanding real GNP and favorable consequences for all workers. It does not appear, however, that under those measures desirably low levels of unemployment can be maintained without generating unacceptably high, perhaps even accelerating, rates of inflation—which are likely to lead to deflationary policies that may leave most workers worse off than if somewhat higher levels of unemployment had been tolerated. An important reason for this is that rapidly rising wage rates in particular occupations or regions that are short of labor contribute to excessive inflationary pressure well before unemployment decreases to desirable levels among many broad target groups of workers.

Because of their potential for concentrating a higher proportion of any expansion of jobs on particular target groups, direct job creation policies have been advocated as a means of partially circumventing the problem of inflation. This is accomplished by favorably altering the terms of trade between increases in employment and inflationary pressures vis-à-vis the pursuit of conventional expansionary macroeconomic policies. Superficially it might appear that simply targeting jobs programs on workers with low wages and skills and high unemployment would insure more favorable inflationary consequences; this is not sufficient, however. The outcome depends critically on how labor markets actually work, in particular on the causes of the relatively high unemployment rates of the target groups and the process of adjustment of relative wage rates to shifts in labor supply and demand.

Both the Baily-Tobin and the Johnson papers develop models for exploring the additional necessary conditions for targeted job creation to have the desired inflationary effects.[24] Between them they identify three that involve wage rates and a fourth concerned with job search.[25]

24. Baily and Tobin pose the issue as whether or not direct job creation policies can shift the Phillips curve inward or reduce the rate of unemployment below which the rate of inflation tends to accelerate (often called the natural rate). Johnson focuses on the efficacy of public service employment as an antipoverty policy and, as an aid to addressing this subject, constructs a model quite similar to the one that Baily and Tobin employ. Baily and Tobin's analysis is in terms of teenagers and adults, but their conclusions are unaffected by changing these to unskilled and skilled workers, consistent with Johnson's terminology.

25. Baily and Tobin also note that, if structural unemployment is due to tempo-

THE PRESSURE OF MINIMUM WAGES. Minimum wages—whether socially or legislatively based—may prevent low-wage labor markets from clearing, therefore resulting in excessive involuntary unemployment of low-skill workers. Public jobs programs can reduce such unemployment by hiring particular workers at a wage that private employers are unable or unwilling to pay, while employer wage subsidies reduce the cost to employers of paying the minimum wage and increase their willingness or ability to hire the same workers. In both instances, little or no upward pressure is exerted on wage rates as a consequence of the increased labor demand for and employment of target group workers. In this event, as George Johnson puts it, the result approaches "an unmitigated free lunch." Employment and output are increased with insignificant inflationary costs, both in the short and long run, and no one is made worse off.[26] Baily and Tobin note that for public employment the result is favorable only if the program wage rates are at or below the minimum. To the extent they are tied to prevailing union wages, the ability to alter the relation between inflation and unemployment is lost.

Of course, the extent to which the minimum wage is a cause of the relatively high unemployment of unskilled workers is a controversial issue. Recent evidence suggests that, while it may not be the primary factor, it is a significant contributor, particularly for teenagers.[27] On the other hand, the relatively high unemployment of low-skill workers may be largely voluntary, reflecting their tendency to engage in long job searches or move in and out of the labor force because other options are more attractive to them than work. To the extent this is the case, any favorable inflationary co sequences of job programs would have to depend on other assumed characteristics of the ope tion of the labor market.

RIGIDITY OF RELATIVE WAGES. In fact, the minimum wage is a special case of the long-run unresponsiveness of the relative wages of unskilled laborers to relative changes in the supply of and demand for their

rary bottlenecks in capital capacity, and job creation policies lead to more labor-intensive production, then those policies could help to reduce unemployment with less inflationary pressure than conventional expansionary means.

26. The same objective could be pursued by reducing the minimum wage for target group workers. Thus, costs associated with the imposition of the minimum wage and the diversion of resources to the jobs programs would be avoided. However, reductions in the minimum wage may be undesirable for other reasons or politically infeasible, in which case jobs programs are an attractive alternative.

27. Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes," *BPEA, 2:1976*, pp. 409–51.

labor. Just as the existence of a widespread minimum wage can mean that no upward pressure will be exerted on low wage rates in the face of a major increase in demand for low-skill workers, so can it prevent the downward adjustment of low wages that conventional economic theory predicts would occur when there is widespread unemployment among low-skill workers. According to some other views of the labor market, however—including queue, job competition, and dual labor market theories—relative wages in many parts of the economy are similarly unresponsive because other factors, such as tradition, are the crucial determinants of the relative wage structure.[28] In such cases, carefully targeted public employment programs and employment tax credits can alter favorably the relationship between unemployment and inflation.

Again, though, the critical question is to what extent labor markets are actually characterized by rigidity in relative wage rates. Neither Baily and Tobin nor Johnson believe this to be of great significance in the long run, a view that is consistent with the weak evidence in the literature on the subject.[29] But Johnson notes that in the case of a sharp increase in the relative demand for low-skill workers, the long run could be five to ten years (depending on the slope of the wage adjustment function for low-skill labor). And, although under such circumstances his model predicts no lasting increase in unskilled employment, output (as measured by GNP), or inflation, there are temporary gains in unskilled employment and output and a permanent redistribution of income from skilled to unskilled workers—purchased at the expense of temporarily higher rates of inflation.

EFFECT OF RELATIVE WAGES ON WAGE RATES. Even if relative wage rates are quite responsive to relative changes in supply and demand, however, job creation policies might still reduce structural unemployment with more favorable inflationary consequences than conventional expansionary policies if a third condition is met. It is that wage rate increases of workers at various skill levels depend on their relative wage rates, as well as on their unemployment rate. Baily and Tobin assume this to be the case; Johnson implicitly assumes the increases depend only on unemployment rates.

28. For a description of these theories and their implications for the operation of labor markets, see Glenn G. Cain, "The Challenge of Segmented Labor Market Theories to Orthodox Theory: A Survey," *Journal of Economic Literature*, vol. 14 (December 1976), pp. 1215–57.

29. See ibid.

Unemployment restrains wage rate increases in a competitive economy. When there is an excess supply of a certain class of workers, the bargaining position of employers vis-à-vis such workers is improved. Baily and Tobin argue that a high relative wage has the same effect. For example, the higher the wage rate of skilled workers relative to that of unskilled workers, the more moderate are likely to be skilled workers' demands and actual increases. Similarly, unskilled workers, such as teenagers, are more likely to be satisfied with their jobs and less apt to leave them the closer their wage rates and working conditions are to those of skilled workers. Thus, the higher the relative wage rate of unskilled workers at any given level of unemployment, the less upward pressure there will be on their wage rates.

Given this assumption, public jobs programs and employment tax credits targeted on unskilled workers can permanently reduce the unemployment rate of unskilled workers even after wages have adjusted fully. But the increase in employment among the unskilled comes at the expense of less employment among skilled workers (through displacement). And, if the employment of additional unskilled workers exerts less upward pressure on economy-wide wage rates than the employment of an equivalent number of skilled workers, it should be possible to reduce unemployment among the unskilled by a greater amount than the increase in unemployment among the skilled without increasing the inflation rate.

Baily and Tobin roughly estimate that, if it is not to increase the rate of inflation, a jobs program that adds a hundred unskilled workers to the ranks of the employed will reduce the number of unemployed workers in the economy in the long run by fifty—reflecting a reduction of seventy-five unemployed unskilled workers and an increase of twenty-five unemployed skilled workers. Although under certain assumptions these results hold for both public employment programs and employer wage subsidies, Baily and Tobin suggest that they may be diluted somewhat in the latter case.[30] They also conclude that while the redistributive and employment effects are sizable and in the correct direction, it is unclear whether the value of output actually will be expanded. This depends on the productivity of the additionally employed unskilled workers relative to that of

30. This would be the case if there is little possibility of substitution in regular employment in favor of low-wage, low-skill groups; if wage-rate increases are a function of relative wage costs to employers (taking into account the subsidy) rather than the relative wage received by workers; or if in response to the subsidy skilled workers insist on higher relative wages for the unskilled in order to prevent substitution by employers of unskilled for skilled workers.

the skilled workers not employed because of the policy and on the nature of the shift in composition of output. This latter is particularly relevant in the case of public employment programs since their output is gained partially at the expense of that of regular employment.

JOB SEARCH. The fourth way in which jobs programs could reduce unemployment with less inflationary pressure than conventional macroeconomic policies pertains only to public employment programs. If the public jobs are short term, low-skill workers who take them may search for regular employment as effectively as if they were unemployed, and more so than if they were employed in regular jobs. In such a case, they could exert relatively more downward pressure on wage rates than if they were regularly employed. Baily and Tobin show that if this mechanism is to work, job vacancy rates must have an independent effect in addition to that of unemployment rates on the inflation rate. Although their empirical tests provide evidence of such an independent relationship, they devote less attention to this case than to the relative wages of workers.

Targeting on Unskilled Workers

At the conference several issues arose that were relevant to various conditions under which the terms of trade between employment and inflation could be altered by jobs programs. First, can the targeting requirements be met—or, put differently, to what extent can job creating policies, particularly employer wage subsidies, actually add to the net employment of unskilled target groups even in the short run? Second, is it true that hiring an unemployed, unskilled worker exerts less immediate inflationary pressure than hiring an unemployed skilled one? Third, even if it is possible to reduce the overall unemployment with less inflationary pressure by decreasing unemployment rates among the unskilled at the expense of the skilled, is it a desirable public policy to do so?

In his paper, Hamermesh raised objections to the use of categorical employer wage subsidies for structural purposes. He argued that employers would shy away from hiring the target group workers even though their wages would be subsidized—that, precisely because of the subsidy attached to them, such workers might be stigmatized in employers' minds and considered unproductive. This phenomenon, he believes, explains employers' low interest in subsidy schemes.

In his paper focusing on public service employment programs administered by state and local governments Johnson does not argue that hiring under the program will not occur; however, he suggests that there probably will be a far less than commensurate net increase in total employment and little or no change in the overall skill mix of state and local government employees (both regular and subsidized). The former will result from fiscal substitution and the latter from either program managers' labeling as unskilled those unemployed skilled workers they hire or state and local governments' hiring fewer unskilled workers outside of the program to compensate for the program's targeting. According to Johnson these results should be expected because they are in the self-interest of the administering agencies and difficult to prevent.

Issue was taken in discussion at the conference with Johnson's and particularly Hamermesh's pessimism. In the case of categorical wage subsidies, it was pointed out that little or no additional information would be imparted about the eligible workers beyond that already available by virtue of their low skill levels and high unemployment rates. The lack of private employers' interest in such programs was believed to be due to the extreme narrowness of the eligibility criteria and the amount of federal red tape involved. Presumably both problems would be of less consequence in a broad-based wage subsidy. In the case of public service employment programs, it was argued that, if the federal government would underwrite only jobs paying unskilled wage rates, only unskilled laborers generally would take them. While this suggests that Johnson may be overly concerned about labeling, it does not address the problem of fiscal substitution. The potential for such substitution clearly will be far greater for a structurally oriented program than for a countercyclical one, since the former presumably would have a long life.

Unskilled Workers and Inflation

In their paper Baily and Tobin report on empirical tests that confirm their belief that unskilled or secondary workers have less effect on inflation than skilled workers. They find that, although unemployment rates of primary workers have a statistically significant effect on the inflation rate, the unemployment rates of secondary workers do not. But, as one of their discussants points out, the absence of as strong an empirical relationship between inflation and unemployment among secondary workers may be due to the fact that the measurement of unemployment is much less accurate for secondary than for primary workers. (Official data on unemployment among secondary workers is a less reliable measure of tightness of labor markets because of the greater movement into and out of the labor force among secondary workers.) Thus, while there is some empirical support for the proposition that secondary workers have less effect on inflation, the evidence is far from conclusive.

Is the Outcome Desirable?

If unskilled unemployment is due largely to rigidity in relative wage rates and can be decreased by jobs programs with minimal inflationary consequences, such programs clearly have strong appeal. But what if relative wage rates are flexible in the long run, and reductions in unskilled unemployment can come only at some expense to skilled employment? Baily and Tobin, Johnson, and many other conference participants viewed these as appropriate assumptions except in times of significant cyclical unemployment.[31] Are jobs programs still a desirable policy under such conditions? The answer to this question depends on both factual issues and value judgments.

The extent to which jobs programs are targeted by age or income class could make an important difference. Supposing large differences attributable to income class, jobs programs with structural objectives would redistribute income and opportunity toward the lower end of the income distribution. But if age were the important factor, such policies could redistribute income and opportunity toward an earlier part of the life cycle. To paraphrase one conference participant, "Do we really want to put a husband with a wife and kids out of work in order to give two or three teenagers more steady employment?"

The effect on program participants also must be considered. Will the productivity of the unskilled workers increase as a result of the reduction in their unemployment? Although both Baily and Tobin and Johnson acknowledge this possibility, their models are not designed to incorporate it. In addition, several discussants noted that a likely effect of lower unemployment rates and higher relative wages among unskilled workers might be to lower their turnover and equilibrium rate of unemployment. This would yield still further favorable consequences for inflation.

Just how would a public jobs program that reduced unemployment

31. Certainly not all, if even a majority, of the conference participants agreed with this view, which is a topic of considerable dispute within the economics profession.

among unskilled workers, increased it by less among skilled workers, and expanded the public sector partially at the expense of the private sector affect the value of the current output of goods and services? As Baily and Tobin note, even though conventionally measured GNP would rise, the value of aggregate output to society still might be reduced because of a shift from higher valued regular employment output to lower valued public employment program output. Would the redistribution of income and opportunity achieved by such a program be worth such a reduction? Clearly, difficult value judgments are involved here.

Finally, if as in the Johnson model, relative wages are free to adjust and increases in wage rates depend only on unemployment rates, targeted job creation policies will not lead to a long-run reduction in the overall unemployment rate with less inflationary pressure than conventional expansionary policies. They still would redistribute income from skilled to unskilled workers, however. Moreover, Johnson shows that there are temporary employment and output gains whose magnitude varies inversely with the speed of the wage adjustment process. Whether the temporary short-run gains outweigh the eventual costs of higher inflation depends on how big the former are relative to the latter and the relative value society places on present versus future income gains.

Microeconomic Effects of Structural Actions

Whether public jobs are intended to insure minimally adequate incomes to workers and their families or simply to reduce structural unemployment, or both, their effect on microeconomic efficiency should be a crucial part of any assessment of their desirability. This is the primary concern of the Haveman and Kemper-Moss papers. Although both deal with particular program structures, the issues they discuss are applicable to any subsidized public employment activity focused on the hard-to-employ.

Haveman applies benefit-cost analysis to the Dutch Social Employment program, which provides subsidized employment to handicapped and other disadvantaged workers who are unable to find regular employment. The program is funded largely by the national government and administered by municipalities under national guidelines. Emphasis is placed on producing valued goods—some of which are marketed at competitive prices—and services, as well as on preparing participants for regular employment.[32] Though rather small initially, the program has grown rapidly and now accounts for about 1.5 percent of total Dutch employment. Kemper and Moss draw on the early experience of "Supported Work" demonstration projects in the United States, which are somewhat similar to the Dutch program, to discuss the elements of a cost-benefit analysis and selected problems and issues of program design and operation.

In this section the cost-benefit framework adopted by Haveman and Kemper and Moss is sketched and then related to the prior macroeconomic perspective. Then two key elements of the benefit-cost ratio are analyzed: the opportunity cost of program participants' time and the value of the output they produce. After a summary of the results of Haveman's benefit-cost analysis of the Dutch Social Employment program, the effects of public job creation and cash income maintenance programs are briefly compared.

A Cost-Benefit Framework

Both Haveman and Kemper and Moss in their analyses consider benefits and costs from a societal point of view; the distribution among various members of society, whether beneficiaries or taxpayers, is not considered. From the societal perspective, pure income transfers are neither a cost nor a benefit since they do not add to or subtract from total economic output but merely redistribute purchasing power over existing economic resources. (This latter point has to be qualified to the extent there are administrative costs and disincentive effects such as those concerning work effort.) The redistributive consequences may be an important concern, of course, but they are treated as an independent issue.[33] This is a particularly appropriate framework to apply to public employment pro-

32. There are two components—open-air and administrative activities, which provide conventional low-skill public services and required funding of $7,600 per worker in 1975, and industrial centers, which manufacture goods for sale and required funding of $10,400 per worker in 1975 (net of the revenue from the sale of goods).

33. As is pointed out in Stromsdorfer's comments following the Kemper-Moss paper, a cost-benefit analysis could be performed from a number of other perspectives—those of the program participants, taxpayers, or the public sector balance sheet. Each of these mirrors the net economic consequences of the program to different significant groups in society but not to the whole. However, they may illuminate some of the distributive consequences of the program, contributing to a richer view of the overall societal impact.

grams for hard-to-employ populations, since the relevant alternative in such cases is often income maintenance of some sort, whether through disability programs, unemployment insurance, or welfare programs. Thus, benefit-cost analysis can illuminate the extent to which there are likely to be economic gains or losses to society as a result of subsidizing target populations through employment programs rather than pure transfer programs, and what some of the important determinants of these gains or losses might be.

Among the key elements of social costs identified is the forgone output that would have been produced in regular employment in the absence of the program. While much of public employment program participants' time otherwise may have been spent unemployed or out of the labor market, it is unlikely that all of it would have been. This "opportunity cost" of their participation in the program will reflect a social cost to the extent that the regular employment opportunities they vacate are not filled by other workers who otherwise would have been unemployed. A second element of social costs is the program operating costs other than the salaries of the subsidized workers—the expense of supervisors, materials, buildings, and other resources necessary to the programs that otherwise could have been employed in some alternative use. Finally, if the output of the public employment programs displaces any regular public or private output, and the resources that would have produced the latter are not reemployed, this forgone output is also a social cost.

On the other side of the ledger are the benefits of the value of the output produced by the program and the additional future output that program participants will be able to provide because of any increases in their productivity fostered by the subsidized work experience. Haveman also points to three additional "social-psychological" benefits which he makes no attempt to estimate: (1) any improved well-being of participants that is not reflected in increased economic productivity; (2) any reduction in social costs or increases in output that might occur as a result of the first benefit—such as lower medical expenses or improved productivity of a spouse; and (3) any improved satisfaction among the community at large because of the program's results.

The net social benefits and costs of the program, except for those related to participants' well-being and the community's sense of satisfaction, indicate whether it will move the economy over the long run to a higher or lower valued GNP growth path (setting aside the possibility that an improved employment-inflation relationship permits a more aggressive expansionary policy). An important determinant of the magnitude of the program's costs is the state of the economy. If the economy is far short of full employment, the regular employment output forgone due to the labor supplied to the program should be at, or close to, zero. Similarly, the operating costs of the program are likely to be an overstatement of the value of the alternative uses of those resources. Finally, it should be easier to produce output that is of obvious social value without displacing what otherwise would have been produced. On the other hand, if the program does displace other output, the displaced resources of production are unlikely to be reemployed.

The context of a relatively full employment economy, however, is of more relevance and interest to the discussion of a structurally oriented public employment program.[34] Assuming, at one extreme, that such a program could not reduce structural unemployment with less inflationary pressure than conventional macroeconomic policies, the program would not result in a net increase in employed resources in the economy. From society's point of view, the opportunity cost of employing a program participant is the lack of employment of someone else who otherwise would have been employed. Moreover, unless the program's job training were superior to what participants would have received elsewhere, the economic benefits of the program can only exceed its costs if the program's output is more valuable than the output that would have been produced in the absence of the program in the regular public or private sectors. For this to occur, the program would have to be correcting some existing micro inefficiency in the economy.

At the opposite extreme, a structurally oriented public jobs program could reduce the number of unemployed in the economy by one person for each person employed in the program without any adverse effects on inflation. In this case, the opportunity cost of labor employed by the program is zero. Although this does not insure that the program's social benefits will exceed its social costs, it makes this outcome much more likely.

Neither extreme case is likely to hold, however. But there are reasons to believe that at least modest-sized, carefully targeted public employment programs can contribute to a reduction in structural unemployment with minimal inflationary consequences. Two very important questions,

34. It is assumed here that the program would be successfully targeted on low-employment, low-skill groups.

then, are how program design affects the opportunity cost of the program participants' labor and the value of program output.

Opportunity Cost of Program Participants

Both the Kesselman and the Greenberg papers deal with the extent to which public employment programs are likely to attract or retain workers who otherwise would be employed. In Kesselman's model the displacement of labor from regular employment is assumed to increase with the net advantages or rent that a public employment program provides to the worker. This rent, in turn, is a positive function of several characteristics of the program—the wage rate, hours of employment offered, the pleasantness and usefulness of the work experience, the advancement and income supplementation possibilities provided, and the ease of initial entry into the program.

On the basis of his review of the WPA program and the experience of its participants, Kesselman is able to conclude that there was little, if any, displacement caused by supply-side effects during the Depression.[35] In his view this was due in large part to the extraordinary underutilization of labor. Despite the sizable percentage of all workers participating in public employment programs, there were enough unemployed workers to fill many times over any regular jobs that became available. However, in a more fully employed economy, if such programs were sizable relative to the total amount of unemployment, more substantial displacement might be expected.

Greenberg employs a more limited version of this same model to simulate participation in variously designed public employment programs had they been in place in 1973—a year of relatively full employment. Worker choices are based on maximization of their future earnings stream. The primary program parameters that Greenberg varies are the wage rate, necessary time unemployed in order to become eligible for entry to the program (the waiting period), and the hours of work per

35. Kesselman notes that displacement can occur through induced reductions of other demands on the economy, particularly in the private sector, as well as induced reductions in labor supplied elsewhere than to the public employment programs. Fiscal substitution is but one of many means by which the former can occur. A comprehensive analysis of displacement from all demand-side effects would be so complex, and probably ambiguous in its results, that Kesselman does not undertake it. He therefore gives no judgment on the extent of such displacement in the 1930s.

week offered by the program.[36] His data base covers only husband-wife households.

Several interesting findings emerge from Greenberg's simulations. As would be expected, the size of the population that desires to participate in a public employment program is positively related to the wage rate and hours of work offered and inversely related to the length of the waiting period. It is much less sensitive to hours of work than to the other two variables, however. The absolute size of this population is, perhaps, surprisingly large. Even for the lowest wage rate he simulates, $2.00 per hour—roughly the minimum wage in 1973—well over half a million job slots annually would be necessary with a thirteen-week waiting period and a million with a waiting period of five weeks. Later work with the model reported in his paper has resulted in much higher participation estimates.[37] For example, if eligibility were restricted to primary earners of families with children, over one million job slots would be required with a waiting period of five weeks and a wage between the minimum and 10 percent above the minimum.[38] And, if eligibility were extended to all primary earners of households (including unrelated individuals), participation would be over five times as high.[39] In all cases as the wage rate is increased, the number of people choosing to participate increases at a proportionately faster rate.[40]

36. He also considers the length of stay permitted in the program, but concludes that as long as it is sufficient to compensate adequately for the waiting period for entry, it is not a critical variable.

37. This later version, known as the KGB model, uses observed wage rates rather than imputed wage rates for potential participants' regular employment. See David Betson, David H. Greenberg, and Richard Kasten, "A Microsimulation Model for Analyzing Alternative Welfare Reform Proposals: An Application to the Program for Better Jobs and Income," in Robert H. Haveman and Kevin Hollenbeck, eds., *Microeconomic Simulation Models for Public Policy Analysis* (Academic Press, forthcoming).

38. These are the characteristics of the public service job component of the welfare reform proposal put forth by the Carter administration in 1977. It is estimated that 1.1 million full-time slots would be necessary under that program.

39. See Robert Haveman and Eugene Smolensky, *The Program for Better Jobs and Income: An Analysis of Costs and Distributional Effects*, prepared for the Joint Economic Committee, 95:2 (GPO, 1978), p. 10. Their estimate is derived from the KGB model.

40. As Greenberg demonstrates, at higher wage rates, the size of the population desiring to participate is quite sensitive to the response of regular employers to this increase in the effective minimum wage (since he assumes they would have to pay at least the program wage rate to retain workers eligible for the program). The greater the reduction in their demand for low-wage workers, the more such work-

Greenberg's estimates broken down by how workers who wish to participate in the program would otherwise be occupied suggest what the displacement of labor in the regular sector might be. The proportion of hours of labor supplied to the program that otherwise would have been spent in regular employment rises dramatically with the wage rate. At $2.00 per hour it is fairly small, around 10 percent, but at $3.50 it might easily be 50 percent or higher.[41] These estimates are greatly increased in Greenberg's later work: under a program with a five-week waiting period that pays no more than 10 percent above the minimum wage and is restricted to primary earners in families with children, as much as half of the participants' hours of work otherwise would have been spent in regular employment. This estimate would be much larger for broader populations or higher wage rates. The potential of structurally oriented public employment programs to displace regular employment and output through the labor supply side thus appears to be considerable if program wage rates are not kept quite low, and the opportunity cost of the program participants could be quite high.

Value of Output

Kemper and Moss focus on the value of the output of subsidized public employment programs. They believe this is important, both because it is likely to be the dominant benefit and because it is typically the most criticized and least analyzed aspect of such programs. They make the conceptual distinction between the issues of how effectively the output is produced—*productive efficiency*—and how useful the output is—*allocative efficiency*. Essentially the former refers to the productivity (re-

ers will want to shift from regular employment to the public employment program. Greenberg assumes this employer response will be sensitive to the number of workers eligible for the program (that is, whether the potentially eligible categories of workers represent a small or large proportion of all low-wage workers, and whether the funding is open-ended or limited to a specific number of slots). For adults in husband-wife families, he estimates that, as the wage moves from $2.00 to $3.00, a low employer response might only double the number of desired participants, whereas a high employer response could raise it about sixfold.

41. These percentages are from estimates based on a five-week waiting period and a forty-hour week with no limit on length of stay. Surprisingly, this proportion is not very sensitive to the length of the waiting period. Although a longer waiting period discourages workers from attempting to become eligible if they could have regular employment, it also discourages people from leaving the program to seek regular employment because reentry to the program is more costly to them.

source cost per unit of output) of a public employment program as compared to alternative suppliers of the same output, and the latter to the value of the program output relative to other outputs that could have been produced with the same resources. This distinction, they argue, facilitates measurement of the value of output, clarifies where subjective judgments enter more strongly into such measurement (in particular in determining the usefulness of the output), and provides a more disaggregated look at program operations which can better inform judgments on how to improve them.[42]

The basic message of the Kemper-Moss paper is threefold: achieving high levels of productive and allocative efficiency would be difficult in a world in which there were no external constraints on program managers and they had every incentive to maximize both; the incentives and constraints likely to be faced by program managers are not likely to encourage productive and allocative efficiency; and there is likely to be some conflict between the goals of productive and allocative efficiency and increasing the postprogram earnings and productivity of program participants.

In the case of productive efficiency, Kemper and Moss point out that the skills of the workers on whom the program is targeted may poorly match the skills required to produce the output—at least as the production process is conventionally organized. The very existence of chronic low wages and unemployment among the target populations suggests that existing producers have some difficulty utilizing this type of labor. Simply imitating their methods of organizing production and supervising workers is unlikely to improve the productivity of the program participants. Considerable experimentation may be necessary to discover efficient techniques.

To maximize allocative efficiency the challenge is to identify and rectify market failures that cause output to fall short of the intrinsic demand for it. The failure could be due to a monopolized private market, or a political process that does not appropriately register its constituents' wishes. Correcting such market failures is no easy matter either, especially in the absence of traditional market signals for output demand.

Thus, according to Kemper and Moss, under the best of circumstances,

42. At the most general level this distinction illuminates whether there are greater gains to be realized from experimenting with the method of production or even the participant characteristics, or from altering the choice of what is produced and how it is marketed.

innovative and creative management techniques, as well as time, probably are necessary to overcome these difficulties and promote efficient choices of output and methods of production. But, they argue, program survival and expansion may not depend on maximizing efficiency so much as on avoiding opposition from influential groups and ensuring a stable source of funding. And these latter objectives are unlikely to provide incentives consistent with achieving the former.[43] If the credentials required of workers are in excess of the job needs in certain areas of the public sector (as is frequently alleged), regular state and local employees are unlikely to stand by while services similar to those they provide are supplied by subsidized workers at lower wages. If an industry or union in the private sector has gained a monopoly position, it will adamantly oppose a lower priced expansion under public auspices of the type of output it provides. In general, very few signals and feedback mechanisms are likely to exist in public employment programs, and those that do may not encourage movement in the direction favored by society.

Lessons from a Dutch Program

The cautionary note struck by Kemper and Moss regarding the efficiency of public programs targeted on workers whose productivity is low is strongly reinforced by Haveman. Using data gathered for this purpose, and supplementing them with assumptions that bracket the likely value of variables that cannot be directly measured, Haveman performs a cost-benefit analysis of the Dutch Social Employment program. His calculations yield only a partial net social benefit (or cost) because his analysis excludes the variables related to improved social-psychological well-being.

Aggregating over all 155 projects of the program, Haveman's analysis shows a partial net social cost for 1973 ranging from about $1,000 to $4,000 per worker. His medium estimate is $2,000 to $2,400, which he indicates would translate into $3,200 to $4,400 for 1977.[44] The cost is the estimated value of the excess of the lost economic output over the economic gains due to the program output and the postprogram productivity increases of participants. It does not include wages paid to participants, which are viewed as simple transfers.

43. Kesselman's paper contains extensive evidence of such conflicts in objectives during the Depression.

44. The higher figure reflects increases in program costs since 1973, net of increased revenue in projects whose output is sold.

These rather sizable estimates of partial net social cost are not surprising in light of Haveman's appraisal—which parallels some of the concerns raised by Kemper and Moss to a remarkable degree—of the program's structure and performance. The program provides only weak incentives either to increase revenues from the sale of output or to minimize costs. Since the vast bulk of the final bill is paid by the national government, local program managers and municipal officials perceive neither rewards for reducing costs or increasing worker productivity, nor penalties for higher costs or reduced sales revenues. The open-ended and undefined nature of the tasks that may be performed under many components of the program and the lack of effective control in the growth of these components have led to considerable fiscal substitution by municipalities. In effect much of the cost of local activities has been shifted to the national government. Finally, because the level of income provided to program participants compares favorably with what they can earn in unsubsidized employment, the flow of workers out of the program is discouraged.

Haveman cautions that the Dutch Social Employment program contains many warnings about the use of structurally oriented public employment programs in the United States. In particular he echoes Kemper and Moss's view that serious difficulties in the design and operation of such programs place inherent limitations on their efficiency. On the other hand, Haveman's disaggregated cost-benefit results show that some projects can do reasonably well on efficiency grounds, just as early experience suggests some Supported Work projects can succeed.[45] This means that there is likely to be considerable room for improvement among those projects that are faring less well, which reinforces the importance of understanding what factors relate most strongly to high efficiency so that programs can be designed most appropriately. Thus, along with Kemper and Moss, Haveman emphasizes the crucial importance of concentrating on the financing arrangements and general incentive structure faced by local program managers to insure they encourage the maximization of net social benefits.

45. See Stan Masters and others, "Analysis of Nine-Month Interviews for Supported Work: Results of an Early Sample" (New York: Manpower Demonstration Research Corp., 1977; processed); and Rebecca Maynard and others, "Analysis of Nine-Month Interviews for Supported Work: Results of an Early AFDC Sample" (MDRC, 1977; processed).

In addition, he advocates careful targeting and design of programs to insure that participants are those with low forgone earnings opportunities (opportunity cost). And if society wishes to encourage in those participants greater and more productive work, it is essential that income from subsidized public employment be significantly above what workers can receive through income maintenance programs and significantly below what they would receive in regular employment after participating in the program. The first condition is met by the Dutch Social Employment program, but not the second.

Public Employment Programs versus Cash Transfers

Lest the messages of the Haveman and Kemper-Moss papers appear too discouraging about the micro efficiency of public employment programs, it is important to recall the terms of these studies. The negative partial net social benefit measured by Haveman in no way indicates the programs are not good social policy. The unmeasurable, primarily noneconomic, benefits not included in his calculation may well be substantial enough to more than offset the negative net efficiency. In addition, income redistribution objectives, if met, confer benefits on society.

There are many indications that societies would prefer to provide jobs rather than direct income support for those portions of the population who are able to work. Programs that create special public jobs can be viewed as a special form of in-kind redistribution. Providing jobs rather than cash, like any in-kind transfer, restricts beneficiaries' choices, and particularly circumscribes the possibility of their using transfer income to purchase leisure. Public preference for jobs programs is motivated at least in part by a desire to prevent work reductions. If this preference is sufficiently strong, society may, in fact, be willing to pay some premium in terms of forgone economic output to satisfy it.

Furthermore, many of the intended beneficiaries also might prefer a job to straight cash assistance if the attendant attitude of society toward them is considerably improved, or if the job is one that allows them to derive greater self-esteem. Generally, beneficiaries are assumed to prefer cash to in-kind transfers because the cash gives them the freedom to choose how to spend their money. But do cash transfers enable beneficiaries to buy a job? Perhaps they do, because the alternative source of income increases their ability to afford to work for lower wage rates. But to the extent that beneficiaries measure the worth of a job in part in terms of dignity and pride and in part by the wage rate, this is not very helpful. It may be preferable from the beneficiaries' point of view to merge the cash transfer and wage payment. Thus, if the preferences of either taxpayers or beneficiaries, or both, for transfers through jobs rather than cash are strong enough, jobs programs may be more efficient than cash even if the former entail greater social costs.

Finally, in cases where society is committed to providing income assistance of some type to certain target groups, the alternative of cash transfers has its own net social costs. The disincentive to work fosters net reductions in regular employment that may not be large for most of the target groups of structurally oriented public employment programs (since the presumption is that their alternative opportunities for work were quite limited), however, in combination with administrative costs, their contribution to social costs may well be 10 percent to 15 percent of the monetary costs of the transfer program.[46] Thus, the appropriate comparison in such cases for public employment programs is not with a policy of doing nothing, but with an alternative that is also likely to have significant effects on economic output.[47]

Policy Implications

What uses ought to be made of policies for creating jobs in the future and how should they be designed? Clearly the conference papers reviewed here have only made a beginning in presenting fundamental information and analytical detail on which to base policy. Since value judgments often are crucial in determining the desirability of job creating relative to alternative policies, conclusions ought to be approached cautiously. Nevertheless, the already extensive use of public employment and wage subsidies, and the strong and immediate interest among policymakers in

46. This estimate is based on the assumption that administrative costs of cash transfer programs are 5–10 percent of total transfers, and the work disincentive effect 10–15 percent applied to a base of regular employment earnings equivalent to one-third of full-time minimum wage employment.

47. This does not in any way imply that public employment programs are necessarily *the* preferred alternative to straight cash assistance. Other policy measures to promote regular employment opportunities may be more efficient and therefore preferred.

improving and possibly expanding their use, make it imperative that these questions be addressed. The papers in this volume are quite helpful for so doing.[48]

Countercyclical Policy

During periods of high unemployment, any expansionary fiscal policy is likely to yield strong economic benefits on balance. However, although they have some merits, the case for the use of public employment programs or wage subsidies for countercyclical purposes in preference to other macroeconomic policies is not strong.

The primary advantage of public employment programs is the potential for targeting the jobs directly created by the additional stimulus. This, in turn, could help disadvantaged workers or regions to participate more fully in the economic recovery and may exert less inflationary pressure than alternative fiscal stimuli of comparable magnitude. Public employment programs may also have a greater employment impact per temporary dollar increase in the federal deficit. But both effects are likely to be quite modest if state and local governments are the administering agents because there are strong incentives for such governments to choose the most qualified applicants from among the eligible population and to use the federal funds to underwrite activities they otherwise would have undertaken with unrestricted funds.[49]

On the negative side, the timing and efficiency of public employment programs intended for countercyclical purposes appear to be less favorable than alternative fiscal stimuli that emphasize expansion of the private and regular public sectors. Rapid implementation is possible, but may come at some expense to targeting on the disadvantaged and avoiding fiscal substitution. (It is more difficult to design and implement special projects than to expand employment already being performed.) And the

48. No attempt was made at the conference to arrive at majority or consensus judgments; thus, while the policy conclusions set forth here are informed by the conference discussion and (generally) supported by the conference papers, they are the authors' and are not necessarily attributable to conference participants at large.

49. There are indications that the restrictive targeting criteria for the expansion of CETA title 6 during the latter part of 1977 increased somewhat the participation of disadvantaged workers in the program. Representation of AFDC recipients, blacks, and members of low-income families increased. The average level of education of participants, however, remained above that of all those unemployed.

timely phasing down of countercyclical public employment programs is politically difficult. Similarly, such programs appear unlikely to provide additional output that would be valued as highly by society as the output that would result from an expansion of the regular public and private sectors of the economy, since the former is subjected to neither regular market or political tests. And while in theory public employment might have a training effect that could raise the postprogram productivity of the working population beyond what an equivalent expansion of the regular sectors of the economy would, there is no evidence that this would happen—nor should it be expected of temporary programs that must be rapidly implemented and subsequently phased out.

It has been argued that the very large public service employment grants made in the mid-1970s have been a critical source of revenue and employment support for many cities during the recent economic recession and recovery. However, given the relative size, cyclical stability, and skill distribution of public-sector employment, it is not clear that it should receive a higher priority than the expansion of employment in the private sector during a recession. And to the extent that it is desired to provide a federal subsidy for state and local activities, general revenue sharing grants or employer wage subsidies may have more desirable characteristics than public service employment programs.

It is also difficult to make a strong a priori case for preferring employer wage subsidies for countercyclical purposes to more conventional macroeconomic policies. However, such subsidies do have some appealing characteristics that suggest they should be given greater consideration, particularly as an alternative to public employment programs if direct job creating policies are to be favored over more indirect stimulative measures. This applies to their use for regular public as well as private-sector employment.

The evidence suggests that wage subsidies or tax credits could have as large an employment effect as public employment programs per dollar increase in the deficit. They also can be structured to favor low-skilled workers. They may be more economically efficient than public employment programs because the jobs directly created are in regular sectors of the economy, and the output therefore subject to conventional tests of consumer demand. And, since the jobs are regular ones, the problem of transition from specially created public jobs is avoided. Finally, general wage subsidies have the advantages of directly lowering labor costs to private employers, which should lead to lower product prices and inflation, of offering flexibility in the degree of the subsidy, and (perhaps) of being easier to phase out.

Structural Policy

The usefulness of direct job creating policies for structural rather than countercyclical purposes appears more promising. This is largely due to the lack of sufficiently effective alternative structural policies, whereas other countercyclical macroeconomic policies than jobs programs have proven quite effective. However, considerable modesty about both the current state of knowledge and expertise regarding their use and their likely ultimate potential is in order.

If certain conditions are met, direct job creating policies can permit continued expansion of employment at relatively full employment levels with less long-run inflationary pressure than conventional fiscal policies. Appropriate targeting is necessary but not sufficient. In addition, the disproportionately high unemployment rates among certain groups of workers must be due to particular kinds of rigidities in wage determination and wage adjustment processes. Since these are currently issues of considerable uncertainty and dispute, the extent to which the inflationary consequences of direct job creating policies are superior to those of other expansionary policies is a speculative matter. However, their potential is clearly greatest if they are narrowly targeted and carefully designed. The more they are restricted to workers with the poorest regular employment opportunities, and the lower the wage paid in public employment programs, the better their prospects for minimizing inflationary pressures. Even so, higher employment among workers in the target group may be partially at the expense of higher unemployment among other workers.

Public employment and employer subsidy programs also can help to insure minimally adequate incomes to families with workers. The targeting requirements for this purpose are likely to overlap considerably with those for the objective of increasing employment with minimal inflationary pressure. When the primary objective is distributional, a jobs program that has the disadvantage of reducing gross national product over the long run may nevertheless be desirable, if its economic efficiency compares favorably with direct cash assistance programs or if a high premium is placed on providing assistance through jobs rather than cash. In fact, if taxpayers are willing to pay more to provide aid to those expected to work through subsidized jobs rather than direct cash assistance, and the former is more costly, it is almost certain that some combination of cash and jobs is optimal.[50]

Although structurally oriented job creating programs do not have to promote economic efficiency to be desirable, the degree to which they do should influence the extent of their use, and the maximization of their economic efficiency should be a principal policy objective. Little is known about the economic efficiency of narrowly targeted public employment and wage subsidy programs, largely because the experience with them has been extremely limited and not subject to rigorous scrutiny. What is known suggests that they have potential, but that it is difficult for them to be efficient.

In the case of wage subsidies the main problem is to induce employers to hire and train workers with characteristics other than those of their usual employees. Once this is successfully accomplished, one can be reasonably hopeful about the outcome since the output will be meeting the market test and the workers will have learned a salable skill while in the regular labor market. In the case of public employment programs, it should be easier to provide jobs for the desired target groups. However, deciding what to produce and how to produce and market the output is difficult, as is helping workers make the transition to regular employment. Furthermore, the incentive structure faced by managers of public employment programs is unlikely to lead them to place much weight on achieving economic efficiency.

For these reasons, policymakers should proceed cautiously. The inherent limitations of job creating programs probably will preclude their ever becoming a panacea for structural unemployment, but they may be able to play a sizable constructive role for particular groups of workers. (Given the severity of structural unemployment among many groups in the population, considerable experimentation with policies with any promise is worthwhile.) Wage subsidies might be more advantageously focused on the more employable members of disadvantaged target groups, with public employment programs reserved for those who are most difficult to employ. In the latter case, though, considerable thought has to

50. Beginning with a pure cash program, taxpayers would be willing to spend a bit more to provide additional aid through jobs and less through cash. With greater funds available it should be possible to design a combination income and jobs program that would improve the well-being of beneficiaries. For further development of this argument see Irwin Garfinkel, "Is In-kind Redistribution Efficient?" *Quarterly Journal of Economics*, vol. 87 (May 1973), pp. 320–30.

be given to the design of regulations and funding procedures to provide an appropriate incentive structure for program operators.[51]

Program Design

The design and operational requirements of countercyclically and structurally oriented job creating policies are quite different and, ideally, ought to be pursued through different program structures. Trying to accomplish both types of objectives within a common framework will compromise both.

Table 1 lists the desirable design features of public employment programs. If such programs are going to be administered through state and local governments for countercyclical purposes, their eligibility criteria ought to be fairly broad, and state and local governments should not be restricted to special projects.[52] Even though these conditions encourage fiscal substitution, they are important to facilitate rapid implementation and the provision of highly valued output. (Since the program is to be temporary, the degree of fiscal substitution will be limited.) The wage rate is not crucial from the point of view of displacing regular employment because of the assumed widespread cyclical unemployment.

In contrast, for structural programs, quite restrictive eligibility criteria are appropriate, as are low wage rates, in order to insure participation of workers with lower opportunity costs. These also may be favored on distributional grounds since they reserve the jobs for the most needy and, within a fixed appropriation level, reach the greatest number of workers. Emphasis on special projects will be necessary since the nature of the work generally will have to be tailored to meet the characteristics and needs of particular target groups and because the relatively permanent funding and assumed high employment rate make fiscal substitution and other forms of displacement more severe problems.

Although wages at or very near the minimum are desirable on some

51. Although the Kemper-Moss and Haveman papers highlighted this problem, they offered no policy prescriptions. This ought to be a priority area for future analysis.

52. This does not mean there should be no attempt to restrict eligibility to the program, only that the restrictions should not interfere with the desired implementation schedule or jeopardize the ability of state and local governments to provide highly valued additional services. In fact it would be desirable for state and local governments to have a set of well-designed projects that can be rapidly implemented sitting on the shelf awaiting the next recession.

Table 1. Major Desirable Design Features of Public Employment Programs with Countercyclical and Structural Objectives

Countercyclical criteria	*Structural criteria*
Temporary funding with level varying inversely and rapidly with aggregate unemployment rate	Permanent funding[a]
Funds allocated primarily to those local areas suffering from higher unemployment	Funds allocated to all local areas[b]
Broad targeting on the unemployed	Narrow targeting on those with poor employment prospects even in a high employment economy
Emphasis on highly valued output	Emphasis on relevance of work experience to regular employment opportunities and transitional assistance
Employment of a type that can be promptly and effectively phased in and out	Employment in carefully designed, long-term projects[c]
Wage rates that can be as high as prevailing rates	Wage rates close to minimum wage

a. Structural unemployment will be a problem even at relatively low rates of aggregate unemployment. The amount of money expended for this purpose might vary somewhat with the overall rate of unemployment.

b. Even in relatively low-unemployment areas there is likely to be some structural unemployment. The allocation formula could be weighted in favor of areas with high unemployment rates (adjusted for size of labor force).

c. Although length of tenure of participants in programs should be restricted, considerable time will be needed to design and implement projects; they should not be forced to terminate if they prove effective.

grounds in structural public employment programs, they can present difficulties. In many locales such wages are well below those of the lowest paid jobs in the regular public sector. Consequently, the program jobs could either become dead-end with no relevance to regular employment or undermine standards in the public sector. In any event, the creation of a very large number of public employment jobs at a subsidized minimum wage raises the spectre of a stigmatized second-class work force being permanently "warehoused" in the public sector. Thus, the setting of the wage rate structure for public employment programs presents a severe dilemma. It can be sidestepped partially if structural programs are not very large, even though they pay prevailing wage rates. Eligibility criteria could be relied on heavily to insure narrow targeting on those with the lowest opportunity costs and tenure in the program could be limited to force participants to search for regular employment.[53]

53. This resolution obviously would not be available if public employment programs were ever used to establish a job guarantee as envisioned under early versions of the Humphrey-Hawkins bill. In such a case either minimum (or even

The distinction between countercyclical and structural policies also has implications for the design of employer wage subsidies or of employment tax credits. In both cases it is important to minimize (consistent with other objectives) the reporting requirements and other red tape associated with the subsidy. A subsidy with countercyclical objectives should be temporary, also varying in size inversely with the aggregate unemployment rate. Its precise structure should depend on estimates of employers' demand response; however, given the desire to maximize the net employment effect per dollar increase in the deficit, the subsidy should be marginal. It is probably desirable to apply it to a base of significantly less than 100 percent of employers' prior-year employment. This will provide greater certainty to the aggregate amount of the subsidy and insure that all marginal employment of declining as well as growing employers is eligible.[54] Finally, within these constraints, eligibility should be extended to all jobs; but if low-wage workers are to be favored, the subsidy should be either a fixed dollar per hour of work or a percentage of wages.

On the other hand, eligibility for structurally oriented employer subsidies should be restricted to workers being hired from appropriate target groups. The availability of the subsidy to employers should be relatively permanent, but its applicability to given employees should be gradually phased out. It is also tempting to apply such a categorical subsidy to only marginal employment—defined either in terms of an employer's total work force or as only those members of a target group. Both limitations have drawbacks, however. The administrative requirements of defining the base relative to a target group can easily become prohibitive. And in addition to complicating program administration, defining the base relative to the employer's total labor force unduly restricts the opportunities for substituting subsidized for nonsubsidized workers. While the potential for such substitution presents a political obstacle to categorical wage subsidies, it is a desired outcome from the point of view of structural objectives.[55]

subminimum) wages would have to be paid in the program or the long-run effects on inflation would be no different than if conventional macroeconomic policies were used to push the unemployment rate down.

54. Upper limits on the amount of subsidy a firm can receive, such as the $100,000 limit on the 1977 employment tax credit, can severely restrict its effectiveness as a countercyclical tool. They should be set very high or be omitted.

55. Provisions should be included that preclude the firing or laying off of nonsubsidized workers so that they can be replaced by subsidized workers, of course. But with natural attrition, it is desirable to affect employers' inframarginal hiring

Conclusion

More research is needed on most of the issues raised in this paper. However, a great deal of the necessary understanding of the consequences of job creating policies—particularly ones with structural objectives—can best be obtained through a learning-by-doing process with careful monitoring and analysis of a host of planned and natural variations. Several useful experimental public employment efforts are under way but there is little relating to employer subsidies.[56]

Both public employment programs and wage subsidies have significant advantages and disadvantages for dealing with structural unemployment. Until more is learned about them, the scale on which they eventually might operate effectively is highly uncertain. There appears to be no general reason to greatly prefer one approach over the other (although one may have more potential effectiveness than the other for particular target groups). Current policies in the United States heavily favor public employment programs.[57] A more balanced approach, with wage subsidies applicable to regular public as well as private employment, is likely to be more fruitful.

decisions as well as their extramarginal decisions. If the policy is effective in shifting the Phillips curve, nonsubsidized workers would suffer little or no overall reduction in employment since more expansionary macroeconomic policies could be pursued.

56. Experimental public employment activities in the United States include the Supported Work demonstrations that are the topic of the Kemper-Moss paper and several demonstrations instituted under the Youth Employment and Demonstration Projects Act of 1977. The Department of Labor is designing a number of welfare reform demonstrations.

57. This heavy emphasis on public employment programs may reflect their political attractiveness more than the belief that they are actually more effective than wage subsidies. The visibility of the jobs created works in favor of such a program, as does the pressure from state and local government for more federal assistance, as well as the concern that wage subsidies will add to the profits of private firms.

If Jobs Programs Don't Work, Why All the Clamor in Congress?

One answer: politics. Members of Congress want to prove they care about the 12 million unemployed, although they may not reach an agreement on an approach.

BY RICHARD CORRIGAN

In the days of the Ford Administration, William F. Clinger Jr. was general counsel of the Commerce Department's Economic Development Administration (EDA) when an avalanche of new money hit the agency. It was Clinger's job to help shovel the money out.

Over President Ford's vetoes, Congress had insisted on setting up an accelerated public works program that was designed to counteract the 1974-75 recession. It provided funds for more than 10,000 projects that local governments were not able or willing to finance on their own - including, Clinger recalled, swimming pools and a Miss America Hall of Fame.

"We spent $6 billion on that local public works program," said Clinger, now starting his third term as a Republican House Member from the Pennsylvania hinterlands. "We were just throwing money around the country. And all the studies that were done showed conclusively that the money came on stream too late. All it did was kind of hype the inflation rate."

A recent report by the Congressional Budget Office (CBO) confirmed Clinger's low opinion of that program. The report said, "The peak of LPW [local public works] spending came in 1978, nearly four years after the trough of the recession and two years after passage of the initial LPW authorizing legislation. By that time, unemployment was back at approximately its pre-recession low, and the additional public works spending is regarded as having been procyclical [rather than countercyclical] - probably contributing to inflationary pressures of the late 1970s." (See box, p. 216.)

Clinger, who is chairman of the GOP's House Wednesday Group, tangled with House Democrats who were pushing a multi-billion-dollar public works package in the lame-duck session of the 97th Congress.

When the dust settled, Congress had approved a $5.5 billion yearly increase in the federal gasoline tax to finance highway, bridge and transit work, a program that was backed by House Democratic and Senate Republican leaders and by the Reagan Administration. But the Democrats' public works plan, tacked onto a continuing spending resolution that was approved in the House by the narrow vote of 204-200, was quickly dropped in conference with the Senate under the threat of a veto by President Reagan.

The debate over jobs legislation is about to resume. With 12 million Americans listed as unemployed, the 98th Congress will be looking for ways to legislate some of the jobless back to work and will be arguing over the options.

Senate Majority Leader Howard H. Baker Jr., R-Tenn., and House Speaker Thomas P. O'Neill Jr., D-Mass., have assigned high priority to jobs legislation in the new Congress. But it's too soon to say whether the Republican-controlled Senate and Democratic-controlled House will be able to reach quick agreement on a jobs plan and sell it to the White House - or whether Reagan will be able to steer Congress away from such a course.

Among the possibilities being studied on Capitol Hill are revamped public works and public service jobs programs such as those that were tried - and later found wanting - during the 1970s.

Even those who promote such plans concede that past efforts were flawed. Supporters say they are not advocating just another leaf-raking extravaganza at public expense. An aide to a House Democratic leader said the criteria for any jobs legislation should be: "It's got to be believable. It's got to be sellable. It's got to be workable."

"You have a lot of people groping," said Steven J. Hofman, executive director of the Wednesday Group. "They want a program that's going to put money into the system quickly and create jobs quickly," he said, but no one has come up with the right formula yet. "We don't have any magical answers either."

The EDA, meanwhile, is on institutional Death Row as the Administration, which has repeatedly tried to rescind the agency's budget, has delayed the flow of money into it. A spokeswoman for the agency said it has not yet received its apportionment of funds from the Office of Management and Budget under the current omnibus spending resolution. That resolution kept the EDA budget at a yearly spending authority of $198.5 million.

Congressional budget watchers said the Administration's delay of EDA funds probably was a prelude to another rescission request in the fiscal 1984 budget message.

Congress has stayed the agency's execution in the past and is likely to do so again. "It has survived because Congress wanted it to survive," said Clinger, noting that when he was at the agency there was one common trait to all project grants: they were always announced by the Member of Congress in whose district the project was situated.

WHY BOTHER?

Why does Congress keep tinkering with jobs bills despite consistently harsh critiques from such supposedly neutral corners as the CBO?

"I suspect that the answer is politics," said a former House Democrat, a middle-of-the-road party loyalist who did not wish to be identified. He said congressional Democrats have gotten a "lasting education" in recent years about the dangers of deficit spending and are well aware of the built in pitfalls of jobs programs. But the political appeal of these programs remains strong, he said, and labor unions with close ties to the party are continually pushing for passage of jobs legislation.

John M. Albertine, president of the American Business Conference and a former Joint Economic Committee staffer, said jobs bills typically are deeply flawed in economic terms but offer the promise of political dividends to their supporters.

"There's nothing tangible about a tax credit," said Albertine. "But there is a great deal tangible, as far as a Congressman is concerned, about a shiny new fire station."

An aide to a northern Democratic Senator took issue with this view, saying that while Members of Congress would naturally welcome a new post office or armory in their districts and are sure to attend the dedication ceremony, the current interest in public works or public service jobs legislation arises mainly out of sheer desperation about the state of the economy.

Even assuming that all the criticisms of jobs programs may be valid, he said, they at least would put some people back to work. "You've put 12 million people unemployed," he said. "What's your alternative?"

During House debate on the Democratic jobs package in December, Rep. George Miller, D-Calif., responded to GOP critics this way: "Since this Administration entered office two years ago with the promise of economic rejuvenation resulting from massive tax cuts for the wealthy, the unemployment rate has skyrocketed. ... We are still looking for the first job created by that policy."

Miller argued that it made more sense to finance federal jobs than to pay additional unemployment insurance or welfare benefits to those who cannot find work.

"This bill is a signal to this country," Miller said, "that we are in a full blown emergency, that we have 12 million jobless people who are walking the streets. We have modern-day 'Okies' traveling from Lansing and Detroit to Orange County, Calif., to Arizona, to Colorado in a desperate search for jobs in the Sunbelt.

But those states and those cities are full up, their people are unemployed, and there are no jobs. So the question is, who will try to help?"

Despite the high priority talk surrounding the jobs issue, not much ground work has been laid on Capitol Hill to expedite bipartisan action on a short term jobs program.

"Things are just in the talking stage," an AFL-CIO lobbyist complained. He said House Democrats at least should have organized their committees in early January, when the 98th Congress convened for a proforma session before recessing for the rest of the month, so that hearings on jobs legislation could have been held by now. "There's no reason they couldn't get this done in a month," he said, expressing hope that Senate Republican leaders would reach an early accord with House Democrats and that legislation could still be enacted swiftly.

But congressional leaders have not agreed within their own ranks on how to proceed. Congress has been awaiting Reagan's State of the Union message and his fiscal 1984 budget recommendations to see how far he might be willing to bend in agreeing to job-stimulation or job-creation measures.

Republican Senators have been looking for a jobs program they could rally around, said a spokesman for Labor and Human Resources Committee chairman Orrin G. Hatch, R-Utah, but "nobody's been able to come up with one yet."

The same situation holds on the House side. Richard J. Sullivan, chief counsel of the House Public Works and Transportation Committee, said of the prospects for a short term jobs bill: "Is there any consensus? No, there's none yet."

PUBLIC V. PRIVATE

A perennial issue with federally subsidized jobs is whether the jobs should be set up within local governments as public service posts, in the construction sector through public works contracts or throughout the private sector through special hire the jobless incentives.

Cleveland Mayor George V. Voinovich, testifying for the National League of Cities, said on Jan. 12 that a public service jobs program would offer "the quickest and least expensive method of job creation."

Appearing before the Senate Labor and Human Resources Subcommittee on Employment and Productivity, Voinovich said "The question we've heard most often from Congress is, 'Can local governments gear up quickly?' The answer is an unqualified 'yes,' especially if we are talking about maintaining, repairing and rehabilitating water systems, filling potholes, upgrading home security for the elderly, carrying out public health programs for the immunization of children and the like. Such a program should be your first priority in this new session."

Voinovich said Cleveland, with a current unemployment rate of 16 per cent, put together a model public service program last year that provided jobs to some 1,200 persons over a seven-month span. Workers cleared 4,300 vacant city lots and, with an urban gardening program, harvested tons of produce for use by city food kitchens before the money ran out, he said. Jobs were chosen by lot to avoid charges of political favoritism, he noted.

This is the kind of short-term program that could be launched quickly on a national scale, he said. But Voinovich also called for a longer-term program of federally financed, locally administered public service jobs along the lines of the much maligned Comprehensive Employment and Training Act public service jobs program of the 1970s, a favorite target of Reagan.

"In my city, people need jobs and my city administration needs their services," the mayor said. "We appreciated [public service employment] when it existed and were sorry when it ended. If putting additional employees to work in the public sector is philosophically upsetting to some, I would suggest that standing in a free cheese line or losing your house because you can't afford the mortgage payments is a lot more upsetting to many more people."

Opposition to such programs is not confined to the Reagan Administration. Construction companies and building trade unions, for example, are strong advocates of higher federal public works expenditures but prefer the funds to be contracted out to them rather than kept inside on government payrolls.

"We don't support any of the leaf-raking type programs," said Richard C. Creighton, executive director for congressional relations at the Associated General Contractors of America. The contractors' group lobbied for passage of the gasoline tax increase, for example, but stayed neutral on the Democrats' extra public works and public service jobs package. The organization tries to steer all jobs legislation away from government jobs, Creighton said, while promoting higher expenditures for infrastructure repair.

At the Jan. 12 hearing, the contractors' group followed Mayor Voinovich with testimony against the kinds of programs he favored. The public interest is better served by contracting out, in part because contracts are awarded through competitive bids, the contractors said.

The AFL-CIO told the same Senate subcommittee that Congress should enact a massive jobs package, including a $10 billion public service jobs program, an accelerated public works program and expanded housing programs.

To offset the cost, the AFL-CIO proposed that the 10 per cent personal income tax cut scheduled to take effect in July be limited to a maximum cut of $700 a year and suggested that unnamed tax "loopholes" could also be closed.

The Administration, in keeping with its political philosophy, looked for ways to promote hiring in the private sector. The President originally suggested that the

The Strengths and Weaknesses of Job Programs

This checklist is adapted from a Congressional Budget Office report, "Strategies for Assisting the Unemployed." It provides a quick indication of the relative strengths and weaknesses of various job-creating options being considered in Congress.

	Job creation	Target group	Income support	Speed of stimulus	Long-term jobs impact
CYCLICAL UNEMPLOYMENT					
Public works	Less than public service because of high capital, wage costs	Construction, supply workers	High wages, variable duration	Varies by project	Relatively little
Public service	Possibly large, depending on wages, job substitution	Mainly low-income, long-term jobless	Low wages, variable duration	Relatively fast	Depends on skills training
Revenue sharing	Depends on state, local decisions	Untargeted	Variable	Uncertain	Relatively little
Housing subsidies	Uncertain	Construction, supply workers	High wages, short duration	Varies	Relatively little
Wage subsidies	Uncertain	Untargeted	Uncertain	Fast	Depends on skills training
Extended unemployment insurance benefits	Negligible	Workers in cyclically sensitive industries	Variable	Fast	Might extend length of unemployment
STRUCTURAL UNEMPLOYMENT					
Training for disadvantaged workers	Relatively little, prepares workers for recovery	Low-income persons	Little, depends on stipend	Already in place, could be increased	Effective for inexperienced persons
Search, training, relocation for displaced workers	Relatively little, prepares workers for recovery	Experienced workers in declining industries	Little	Required program start-up	Uncertain; could be significant

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unemployment rate could be cut substantially if each employer added one employee - an idea that was widely panned Administration task forces, in studies leading up to the State of the Union address and the budget, identified some relatively low-cost incentives designed to spur employers into taking the President's advice

Reagan asked, for example, for more funds under the Job Training Partnership Act, a measure signed into law in October with bipartisan backing in Congress and the President's blessing

The law authorizes federally sponsored, but state and locally administered, training and assistance programs Job training is to be patterned after the advice of local private industry councils, which supposedly will know what kinds of opportunities will be available and what kinds of training is needed

The legislation was crafted as a private-sector substitute for the Comprehensive Employment and Training Act, with a start-up date of next fall *(See NJ 12/18/82 p 2168)*

An initial installment of $25 million to help dislocated workers those who were laid off by declining industries and have scant hope of getting their jobs back was attached to the December spending resolution

Labor Committee chairman Hatch, rated as no friend of organized labor has signaled his willingness to step up support for this program although he remains generally opposed to jobs bills, a committee spokesman said

Beyond that training program, Reagan asked for modest increases in summer youth jobs programs and in tax credits for employers who hire the long-term unemployed

POLITICAL PRIORITIES

Passage of a jobs program this year, no matter how modest or grand it might look, will not make an immediate dent in the ranks of the jobless Even a highly effective short-term program would take a while to gear up

But the way jobs bills get handled in Congress and the White House may give quick indications of the current political priorities within both parties

The built in delays common to job creating programs were referred to by Mayor Voinovich in his Senate testimony He noted that the new nickel a-gallon tax increase which takes effect on April 1, won't lead to the award of new highway contracts for at least two years *(See NJ 1/15/83 p 118)* The mayor, while asking congressional approval of new jobs measures, also suggested that something be done to speed the flow of federal funds for programs already on the books

The real priorities of congressional leaders will probably be revealed by the actions taken or not taken to reach a bipartisan compromise in Congress Last fall, Majority Leader Baker and Speaker O'Neill came to terms quickly on the gasoline tax legislation, and Reagan's support sealed the deal

One question now is whether House and Senate Democrats will come up with a party program for jobs, or whether the House Democratic leadership again will join forces with Baker rather than Senate Minority Leader Robert C Byrd, D-W Va

For the past few months, Scott Burton of Byrd's Democratic Policy Committee has been meeting with a band of House Democratic aides, including M Paul Driskell from the staff of Majority Leader Jim Wright of Texas, to talk over the possible outlines of a long-term jobs and public works plan One aim is to avoid, if possible, the situation that developed last fall, when Senate Democrats were bypassed in the gasoline tax deal

Opinions vary among House Democratic aides on whether their chiefs again will turn to their GOP Senate counterparts One aide said, "Our side will probably explore the possibilities of an agreement with them"

If the two parties' leaders are willing to compromise on a jobs program, that would indicate that they attach top priority to quick anti-recession action Joint agreement also would put added pressure on the President to accept the legislation, despite objections from the Administration on fiscal and philosophical grounds

If the Democrats make a point of drawing the line between their party's position and that of the Republican Party, that might well indicate that their top priority is setting the stage for the 1984 campaign One aide said that the recommendations for elements of a big jobs and public works package might end up as planks in the 1984 Democratic Party platform, if not as pieces of a 1983 law

Similarly if the GOP seems unwilling to bargain that would suggest that party leaders are trying to close ranks with the White House in advance of next year's elections

Rep Paul Simon D-Ill issued his own [illegible] jobs and reindustrialization plan on Jan 14 calling for a multi-year, [illegible] effort to guarantee a job to every willing worker

Simon admitted he saw no immediate chance for action on his plan, because Reagan "would obviously veto it" even if it got through Congress "But this ought to be on the agenda on the 1984 election," Simon said

When asked whether there was any sign of interest in his plan among Democratic leaders in the House, Simon answered "I have not talked with the Speaker about this" He then added, "There's never agreement among Democrats on anything" □

UNEMPLOYMENT, SUBEMPLOYMENT, AND PUBLIC POLICY: THE GOAL OF GENUINE FULL EMPLOYMENT

(By Helen Ginsburg)

The goal should be genuine full employment. Each person willing and able to work should have the right to a decent job at a decent wage. There should be a strong national commitment to full employment with appropriate legislation to insure that this goal is attained.[1]

A genuine full employment policy is not simply a public service job program. Such a program cannot by itself guarantee each individual the right to a job. Although a greatly expanded public service jobs program could be and should be a step on the road to full employment, and public service jobs would play a vital role in a full employment economy, a full employment strategy requires much more than the creation of public service jobs. It would make little sense, for example, to continue to pursue policies that create unemployment and then create a few public service jobs to compensate partially for the wrong policies.

A full employment commitment would make it the responsibility of the federal government to develop, coordinate, and administer short-term and long-term policies that would make it possible to provide enough jobs for all who want them. All agencies of the federal government and the Board of Governors of the Federal Reserve System would be required to act in accordance with this objective. Fiscal and monetary policies would be coordinated and anti-inflation policies pursued without curbing employment.

The production level of the nation would have to be set high enough to absorb the labor supply. Setting this level should provide the nation with the opportunity to rethink the purposes of production. National priorities and social goals could and should be intergrated with the full employment objective. While most of the jobs would be in the private sector of the economy and job development in that sector would be encouraged, the federal government would have the obligation to make up for any shortfall in employment.

There are many possible areas of expanded job development in the private and public sectors of the economy that would be consistent with broad social goals. A partial list might include increased production of new housing and upgrading of existing housing to achieve a decent home for every family within a specified period of time, improving and expanding railroads and mass transit systems, provision

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*Helen Ginsburg. The goal of genuine full employment. In her unemployment, subemployment and public policy. New York, New York University, School of Social Work, Center for Studies in Income Maintenance Policy, 1975. 128-137. Reprinted by permission of Helen Ginsburg, Assoc. Professor, Dept. of Economics, Brooklyn College, City College of New York. Copyright 1975.

[1] The House Subcommittee on Equal Opportunities is currently studying a bill that would guarantee jobs—H.R. 50, the Equal Opportunity and Full Employment Act. A companion bill has also been introduced in the Senate. Some ideas discussed in this section are in H.R. 50 but that bill is more comprehensive.

Reproduced from: U.S. Congress. House. Should the Federal government implement a program which guarantees employment opportunities for all U.S. citizens in the labor force? House document no. 95-328, 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 1-4.

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of adequate day care for those who want it, assistance to the aged and disabled, improvement of the environment, regional development of depressed areas, making our cities more attractive, expanding and improving educational opportunities, and the extension of cultural activities to more of the population.

A full employment policy should be coordinated with a general tax reform and a reordering of national priorities away from the huge military budget. It makes little sense and is unjust to provide jobs to low- or modest-income people and then make them or those just above them on the income scale bear the brunt of the taxes. Moreover, in a full employment economy, it would be far easier to begin to reorder national priorities from military uses to areas of crucial social need, since careful planning would insure that workers in defense industries would not have to pay for conversion with unemployment. Many new areas of job creation would involve human services, and experience from the New Careers program of the 1960's shows that many of these jobs can be performed by poor persons.[2] Moreover, these jobs use few natural resources, so a genuine full employment economy would be consistent with the goal of conservation of energy and other natural resources.

A full employment economy with a guaranteed job at a decent wage vested in the individual would have a major impact on poverty. Poverty's elimination could easily be made a national priority in a full employment economy. In 1972, when the grossly inadequate SSA poverty threshold was $4,275, 11.3 million persons with incomes below the poverty line were in 2.7 million families headed by someone who worked at least part of the year. Some 4.6 million of these persons were in one million families headed by a full-time full-year worker.[3] Provision of guaranteed decent-paying jobs would end much of this official poverty—though some very large families or those headed by someone only able to work part of the year would still require additional support.

There is an urgent need for a substantial increase in the federal minimum wage. It has been consistently set below any level that would enable a steady full-time worker to support a family in minimal decency. In December 1974, the poverty line for an urban family of four was officially estimated by the government to be $5,302 a year, but the new federal minimum wage of $2.10 an hour that went into effect on January 1, 1975, still only enables a workers getting that wage to earn $4,200, if working all year at a full-time job. Moreover, many workers are not even covered by the law and some are covered at less than $2.10 an hour. A substantial increase in the minimum wage well above the poverty level is needed at once and coverage of all workers should not and need not await a national commitment to full employment. But it would be easier to implement a much higher minimum wage as an integral part of a full employment and guaranteed jobs policy. Those who oppose substantial increases in the minimum wage have always claimed that many low-wage workers will lose their jobs if the minimum is set too high. The fact is that there has never been an increase in the minimum that brought it close to any decent level, so their assertion remains unproven. But in a full employment

[2] Frank Riessman, "Strategies Against Poverty" (New York: Random House, 1969), pp. 20–40.

[3] U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 91, Characteristics of the Low Income Population, 1972 (Washington, D.C.: Government Printing Office, 1973), Table A-2, p. 143, Table 30, p. 97, and Table 32, p. 101.

economy, the government could assist low-wage industries to enable them to pay higher wages. And if any labor displacement did occur, the workers would still be guaranteed other decent jobs.

A full employment policy with decent-paying guaranteed jobs would reduce the pressure on the income maintenance system. There would be much less need for unemployment insurance. Welfare mothers who want to work would be assured of adequate-paying jobs and day care facilities. The future need for welfare would be reduced by providing jobs and giving hope to ghetto youths. Some disabled and older persons would opt for jobs. A more generous income maintenance system ~~could and~~ should be provided for those still requiring support. Jobs at decent wages and income maintenance at decent standards should be twin goals of a full employment policy.

A genuine full employment policy is not a substitute for continued pursuit of equal opportunity. Indeed, it would provide the necessary conditions under which that goal might be more readily attained. And the tensions that result when some workers fear that more jobs for one group mean fewer for another might be expected to abate when jobs for all are guaranteed.

Many other benefits that would result from a full employment economy could be cited. Millions of employed workers would benefit from the elimination of insecurity and the threat to their own working standards caused by recessions. More taxes would be collected from those who previously required public support and the fruits of their labor would contribute to the nations' output of goods and services; there would be fewer expenses that stem from poverty, inequality, and lack of opportunity. There would, for instance, be a probable reduction in the incidence of crime since, as the National Commission on the Cause and Prevention of Violence noted, unemployment and subemployment pull many individuals into cirminal activities.[4] Therefore, fewer tax dollars would be needed to support prisons. And the quality of life in a crime-ridden nation would be improved.

A national commitment to full employment is not a panacea for all the problems that plague society. But it would make it much easier to solve some of them. It should be pursued for that reason and because it would provide many Americans with the chance to attain the human dignity they are now denied. For a full employment program transcends mere economics. It tells people they are needed and wanted and not objects to be discarded at will by society. Genuine full employment cannot be achieved overnight. But the commitment to this goal should be made immediately.

Summary of Conclusions and Recommendations

If employment and subemployment are to be eliminated, severa sets of policies will be necessary.

An immediate priority is for the federal government to use all its power to end he present recession as quickly as possible To ease the financial hardship of unemployment and to reduce the need for welfare all workers should be covered by unemployment insurance at decent levels and without limiting benefits to a certain number of weeks. But jobs are required and a *massive* federally financed public service employment program should be instituted at once, with part

[4] National Commission on the Causes and Prevention of Violence, To Establish Justice, To Insure Domestic Tranquility (Washington, D.C. 1969), pp 27-37

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of the funds going to cities and states, as at present, and with part going to establish a federal jobs agency. A large and permanent public service program should also be maintained in nonrecessionary times. A vigorous assault on discrimination in the job market and in other institutions is necessary, as is the need to raise the minimum wage to a level that will enable workers to live decently. Many of these proposals, such as pursuit of equal opportunity and substantial increases in the minimum wage, will be easier to accomplish in a full employment society.

Finally, the Nation is urged to accept the ultimate goal of genuine full employment with guaranteed jobs backed up by appropriate legislation. Implementation of this policy should be tied to a general tax reform and a reordering of national priorities towards achieving the twin goals of decent jobs at decent wages and income maintenance at decent standards.

FIGHTING POVERTY WITH JOBS: PUBLIC AND PRIVATE PAYROLL WEAPONS

(By James L. Freund[1])

The controversy over "big government" has been raging for longer than most Americans can remember. In recent years the focus has been on the spiraling cost of the social programs of the Great Society as well as on the size and scope of military spending. Now, a major issue is being raise.

Many people concerned with high unemployment rates and poverty are demanding that the Federal Government rush to the rescue with a "decent-paying" job for anyone who can't land one in the private sector. They feel that everyone who wants to work should have the opportunity, and that the only way to guarantee this is for Uncle Sam to become an employer of last resort. While most would agree with the goal of full employment, the laudableness of the objective should not mask the potential difficulties of direct Government job creation. A lower-cost alternative might achieve the same end by merely increasing incentives for private enterprise.

Filling in With Public Action

The magnitude of the problem of unemployment suggests that any remedial program would have to be large. In only seven of the last 25 years has the unemployment rate dipped below 4 percent—and usually only because of the "public employment" associated with wartime mobilization. In the average year during that period well over three million workers were out "pounding the pavement."

Even when unemployment is low, certain groups suffer more than others. When unemployment fell to a recent low in October 1973, over twice as many nonwhites as whites were jobless. One in 14 teenagers (many getting a taste of the workaday world for the first time) was jobless, and black teenagers were only half as successful at landing a job than their white counterparts. Even finding employment does not necessarily mean the end of one's woes. Many of the low-skilled have jobs that do not afford enough income to lift their families above the poverty line—this group has been labeled the working poor. In short, for many Americans permanent and satisfactory jobs are an illusory commodity.

In many quarters the belief is growing that the economy just cannot create enough acceptable jobs. New opportunities are hard pressed to keep pace with the normal growth of the labor force. Further, business fluctuations often keep production below capacity, thus creating more unemployment.

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[1] This article is based [illegible] Federal Reserve Bank of Philadelphia [illegible] National Bureau of Economic Research.

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Past and current efforts

Concern for those who have experienced difficulties in earning a living is not new. Welfare, Social Security, and unemployment insurance are available for those in need. Perhaps more important, the Federal Government has long been concerned with the underlying causes of unemployment; the Employment Act of 1946 pledged the Government to strive for maximum employment consistent with price stability.

Fiscal and monetary policies are the Federal Government's main tools in fighting joblessness; their target is those workers who are idle because of deficient demand. Washington uses these tools to stimulate economic activity so that private firms will hire more workers. Help is also being directed at workers who are unemployed while job hunting—the "frictionally unemployed." As computerized job banks and public placement services make job hunting more efficient, the amount and duration of unemployment associated with finding a first job or changing to a new one is being reduced. Finally, major efforts have been directed at the hard-core unemployed and workers with habitually low incomes. Specifically, many of the social programs of the '60s sought to help by providing training and "proper motivation." The quality of the applicant, not the lack of well-paying jobs, was often considered the primary problem.

Critics claim that these efforts always seem to fall short. Fiscal and monetary policies eliminate some joblessness, but they don't create enough jobs without unacceptable inflationary pressures. Many low-skilled workers are never reached. In addition, these aggregate policies guarantee nothing about the quality and permanency of the jobs created. Programs aimed at "disadvantaged" workers (such as manpower training) undoubtedly enhance enrollees' productivity and ability to compete for existing positions. However, such programs can succeed only when they are tailored to existing job vacancies or coupled with job creation. Despite the progress made so far, the biggest obstacle has been the shortage of "well-paying," permanent jobs relative to number of workers trained. In short, it's argued that Government programs only partially fill the gap between those seeking a job and the positions available.

U.S. Government: Employer of last resort?

Past efforts have fallen short of eliminating unemployment as a social problem, and so the call has been for a direct approach. Why not just have Uncle Sam hire those left out in the cold? The idea is hardly new. Unemployment, as we know it, is rare in countries with totally planned economies because the government provides for total employment in state-owned enterprises. Likewise, in Sweden's welfare state, there is a well-established program to provide employment for those unable to find a job.

Supplementing traditional economic policies with public employment isn't new in the United States, either. One of the most controversial of the New Deal programs to combat the Great Depression was the Works Progress Administration. At its peak, the WPA employed 5 percent of the labor force and absorbed 31 percent of measured unemployment. The cost to the nation averaged about $1.4 billion in direct wages per year to support about two million workers. Its goal was simple: providing temporary income for citizens out of work as a result of adverse economic conditions. The jobs were meant to be temporary, and little or no training was involved.[2]

More recently, the Emergency Employment Act of 1971 created a limited number of temporary jobs to narrow the gap between the number of positions available and the number of jobseekers. As long as traditional policies failed to lower the unemployment rate to 4.5 percent; Federal funds were provided to local governmental units to hire area unemployed.

Proponents of public service employment consider such programs as only a start, arguing that efforts must be broadened and become permanent. As a true employer of last resort, the Federal Government would create jobs for anyone not finding employment. Further, many would argue that full Government responsibility includes providing a "decent-paying" job for those who work but don't earn an acceptable wage by society's standards.

Jobs would be reserved—through eligibility requirements—for those workers not likely to find employment elsewhere. Those who are only temporarily out of work (frictionally unemployed) should not be put on the Government payroll. Eventually they will land a job and are helped in the interim by existing unemployment compensation laws. The demand-deficient unemployed might be aided by public service employment as a stop-gap measure. As business conditions improve, these workers would move off the public payroll to private employment. The cornerstone of recent proposals, however, is the commitment to fight poverty by guaranteeing jobs to all those who suffer *competitive disadvantage* in free labor markets and habitually have high unemployment rates—the young, minorities, and those in depressed areas.

Thus, the main recipients would be the low-skilled for whom the Government is, in fact, a last resort. When these workers secure employment in the private sector, it's often with small and unstable firms. They are laid off and rehired frequently. Benefits are poor, and pay is frequently low. People limited to such jobs are unemployment-prone and their incomes often fall below the poverty line. Public employment would give them a regular job, breaking into the cycle of poverty and the job-market shuffle.[3]

How it would work

A public employment program would differ substantially from its predecessor, the Works Progress Administration. Although the WPA's primary purpose was to provide families with income, much of the disfavor it attracted can be traced to the public impression that recipients just stood around. Partly to avoid such criticism and largely because participants will need remedial training, proposals now stress the creation of positions which make meaningful contributions to society as well as to the individuals involved.

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[2] See Alden T. Briscoe, "Public Service Employment in the 1930's: The WPA," Harold L. Sheppard *et al.*, eds., *The Political Economy of Public Service Employment* (Lexington, Mass.: Lexington Books, 1972), pp. 95-116. The author provides a comprehensive overview of the WPA experience in this selection. It is only one of this volume's many essays on public service employment.

[3] For a discussion of the problems of the poor and these advantages of public employment, see Bennett Harrison, "Public Employment and the Theory of the Dual Labor Market," ibid., pp. 41-75.

For those who might be expected to be on the public payroll for only a short period (demand-deficient causes), temporary positions might be designed to use their present skills. For the "hard-core," more formal plans are necessary. Since many of the recipients would not fit the job categories that are most in demand in the public sector, two schemes have been suggested for running the program.[4] Meaningful new job classifications could be created as spin-offs from established jobs. These would be semi-skilled tasks that would relieve present personnel of responsibilities by assigning part of their work to new employees. For example, local hospitals might train participants as paraprofessionals assisting in areas such as physical therapy and laboratory chores. Teaching aids could relieve educators of tasks such as attendance-taking and supervision of non-classroom activities. Street and highway departments could train participants to assist heavy equipment operators. Policemen could relinquish certain nondangerous duties. In short, new positions would be created, and the new employees would be trained to fill them.

A more traditional approach is also possible. Public employment funds could be used to hire, train, and then employ workers for existing job classifications. In essence, it would be a training program that would meet the failure of many manpower programs in the past—there would be a guaranteed, meaningful position at the end of the training period. In this approach, participants would be employed as full-fledged firemen, building inspectors, nurses, and file clerks.

COUNTING ITS BLESSINGS

When many programs vie for limited funds, any proposal's benefits must be weighed against the concomitant costs—no matter how meritorious the basic objectives appear. The employer-of-last-resort idea is no exception. It must not only accomplish the goal of an adequate job for every qualified family, but it should do so more efficiently than any alternative method.

A chance to do better

Any policy designed to aid people ultimately must rest or fall on its ability to make its recipients better off. Advocates point out several advantages of this proposal in the fight to help the distressed.

1. Public employment, once it is set up, is *fast* and *direct*. Fiscal and monetary policies create jobs through general economic growth and thus involve considerable time-lags and leakages. Disadvantaged workers are often the last to be hired, if they are reached at all, in economic expansions. Likewise, public programs for depressed areas based upon attracting industry may take years to work out. Expenditures on public employment benefit the jobless immediately.

2. For most recipients the program could provide an accessible and steady job. It could be tailored so that many low-skilled workers can be absorbed without lengthy training. Many Government installations are in areas accessible to ghetto residents who constitute a large portion of those left out of the mainstream of the labor market. Moreover, Government could make a conscious effort to locate future

[4] Harrison reviews the structure of such efforts in detail in "Public Service Jobs for Urban Ghetto Residents," ibid., pp. 231 ff.

facilities (or relocated existing ones) in areas that are convenient to low-income and high-unemployment groups. But most important to the recipients, wages are "adequate," there are fringe benefits and there is a reasonable degree of permanency.

3. The "workfare" concept would help to *build specific skills*. If the worker is suffering from an extended period of idleness, being able to work should help keep his knowledge current. For many recipients the scheme would, by providing a steady job, help develop and reinforce work habits. New skills would also be acquired. A possible secondary benefit of the program is the loss of many of these workers to the private sector as their improved qualities as workers merit better jobs.

Advantages to society

By providing a job rather than a cash payment, the public employment proposal has the following basic advantages for society.

1. When idle resources are put to use, society is better off. A jobless worker is not producing clocks, building boats, or painting buildings; getting him to work at any job will create *additional output*. Conversely, if poverty breeds wrongdoing, Government employment may eliminate crimes of desperation.

2. Not only will more be produced, but especially *valuable services* could emanate from the program. Jobs could, for instance, be created at the state or local level. Any mayor or governor can cite many "urgent needs" that could be filled if Washington paid for the training costs and salaries of new employees. City streets could be cleaned, recreational facilities could be built, and neighborhood health clinics could be opened. In short, formerly inactive or low-productivity workers could provide vitally important social services.

ASSESSING THE COSTS

To judge the job-guarantee proposal fairly one must identify all the costs so they may be compared with the benefits. While it's difficult to be precise, the salient cost considerations can be identified.

Direct program costs

The direct cost of the program to the taxpayer would depend on the salary levels and on the number of eligible recipients. The wage rate should provide a decent standard of living, but it must be low enough not to discourage returning to private sector jobs. The number of candidates is difficult to estimate because there has never been an exact count of those on the fringes of poverty—either at work or outside of traditional labor market pursuits.

Nevertheless, estimates have been made as to how big the program might have to be. "Realistic proposals" call for a half to a million jobs, with a million bringing the unemployment rate down more than a percentage point. Some who have studied the problems of the poor come up with numbers as high as three to five million.[2] In addition to those measured as unemployed, these figures include "discouraged

[2] For one discussion of the numbers involved, see Garth L. Mangum, "Guaranteeing Employment Opportunities," Robert Theobald, ed., *Social Policies for America in the 1970's: 9 Divergent Views* (Garden City, N.Y.: Doubleday and Company, 1968)

workers" and those on a part-time basis who want full-time employment.[6]

Such an undertaking might cost anywhere from $5 billion annually for a million jobs to $20 billion for a comprehensive program. In terms of national output, the cost of a comprehensive program would run between 1 and 2 percent of our current national income. If remedial training and placement functions were part of the program, the outlay would be even higher. Any disruptions in normal work patterns of regular Government personnel would up the cost.

Economic costs

The actual expenditures represent the cost to society of the program—net of output produced by previously idle labor. However, there are other costs to be considered. Absorption of many unemployed and low-paid workers will make labor more scarce for those who want to hire the low-skilled and will cause the wages of those remaining outside the program to rise. During the Great Depression this was apparently not a major problem (despite protests from many local businessmen), probably because the program never touched vast numbers of the unemployed. In the more prosperous economic climate of the 1970s, where wage pressures are sensitive to labor market conditions, even a modest program might cause wages to rise as employers compete for the low-paid workers who remain outside the program. Both higher wages costs and lack of availability will endanger the competitive existence of marginal firms and cause costly adjustments of existing production processes.

Having Government services produced by the new public servants is obviously better than having them just standing around or asking for no work in return. But this benefit should not be viewed as costless. By taxing the public to finance the plan, the products that otherwise would have been bought with a good portion of the taxes are not being produced. For instance, fewer automobiles, snowmobiles, and TV sets may be the price for cleaner cities. Or, if the scheme were funded from existing revenues, other programs would have to be curtailed. In this case, new services may be at the expense of superhighways, submarines, or stricter law enforcement. The most likely outcome, it would seem, is that the program would shift some production away from private goods. While better Government services may or may not have more merit than private goods sacrificed, employing the hard-core jobless should be considered on its own merits.[7]

Thus, while the employer-of-last-resort program would reduce unemployment and working poverty, the costs are not inconsequential. Furthermore, implementation of a plan as large as this one begets problems. Many of the expenses and benefits cannot be determined until operations start; setting up the administrative machinery would be both costly and time-consuming. The proposal would inevitably face a

[6] "Discouraged workers" are those who have dropped out of the labor market because acceptable jobs are not available. It is difficult to pin down exactly how many are in this group, but their numbers are substantial at periods of high unemployment. They must be included as potential recipients because many will "drop in" if a good public sector job is available.

[7] Besides the fact that associating a work-relief program with an attempt to provide other social services would be a political liability, one can argue that society was already [illegible] what it valued most before the program was initiated. In other words, if society wanted cleaner streets rather than snowmobiles, it would have already increased expenditures in that area. While the argument is long-established that public services don't get a fair shake (see J. K. Galbraith, *The Affluent Society* [Boston: Houghton Mifflin Company, 1958]), the exact use to which the recipients of a program are put is really a secondary issue to whether we want such a program at all.

barrage of criticism from those who think that the Federal Government is just too large for another "big spending" program. Finally, there is the contention that, because of the lack of profit motive, the new public employees will not be as efficiently used as they would be in the private sector.

All of this suggests that other policy alternatives for providing jobs for those not in the mainstream of the labor market should be explored, especially plans that motivate private firms toward the same end. To do this, a proposal must correct the circumstances that lead to the present deficiency of "decent" jobs.

PROVIDING MORE JOBS IN THE PRIVATE SECTOR

The horns of the dilemma

A common thread running through explanations for low wages and unemployment is that private firms just do not find it profitable to hire workers at wages society feels are acceptable. For workers with outdated skills, their salaries plus retraining costs outweigh the value of their services. Likewise, some firms that might find hiring younger workers profitable at low wages may be precluded from doing so.

Textbooks often cite one way of eliminating the problem. If workers were willing to take lower wages, firms would find it profitable to put more workers on the job. Over longer periods, given product demand, businesses would use more labor relative to machines. As matters stand, many factors keep wages from falling in periods of high unemployment. Unions are one powerful force preventing wage cuts. Another institutional constraint for wages on the jobs normally available to marginal workers is the minimum wage law. This law prohibits firms engaged in interstate commerce from paying an employee less than a fixed minimum regardless of age, skills, or the value of his labor to the employer.

Thus, the problem of assuring a decent job for every American is double-edged. Present real wage levels are apparently too high to guarantee full employment. But even if wages fell low enough so that everyone could find a job, unemployment would merely be replaced with the working poverty of low wages. What is needed is a policy that will make jobs profitable for firms *and* mean enough income to keep working families above the poverty line.

Two ways to help

The problem can be viewed as a gap between minimum standards and profitable levels of wages for a large class of workers who are having difficulty finding permanent employment. One way to eliminate the gap and encourage private employers to absorb the unemployed is to let wages fall and supplement them with a payment to the worker. Minimum wage laws could be eliminated, and workers could accept the reduced wages dictated by economic conditions. The Federal Government would make up the difference between any substandard wage and the level which assures each family an acceptable standard of living. Plans that accomplish this, such as the negative income tax, have been on the drawing boards for many years; the beneficial employment effect of encouraging wage flexibility at the same time has not often been discussed.

Another plan, wage subsidies, would attack the gap from the other end. Recognizing the difficulty of convincing people to accept lower wages, private employers could be paid allowances for hiring the unemployed or for raising wages of very low-paid workers. In effect, the Government would be lowering the price of labor to the firm. Like a shopper tempted by a sale, it is expected that more of the sales item would be bought.

Such a wage-subsidy program has been attempted on a limited scale both at home and abroad—when dealing with problems of depressed areas and disadvantaged labor.[9] Clearly, to be effective the details of such a program must be worked out. Like direct job-creation by the Federal Government, the full costs would only be known if the plan were actually implemented.

Income-maintenance and wage-subsidy schemes have several advantages. They would not require the vast administrative effort of direct public employment. In both cases business would still have the incentive to be as efficient as possible since it would be footing part of the bill. Although taxes would be used to finance the schemes, the preferences of the public would continue to determine what was produced. Theoretically, those industries that were the fastest-growing would be the most likely to hire new workers. This includes the already expanding government sector.

FIGHTING POVERTY WITH JOBS

Giving everyone an opportunity for meaningful employment is a goal that has wide support. Movements in the unemployment rate and successes in the fight against poverty are everyday concerns in the press. However, the moot question is whether there is a viable way to provide income through jobs for all.

Claiming there's a need for new weapons hardly rules out traditional means. Creating jobs through stimulating the economy or by upgrading labor skills can be productive, but they have not been enough. One option for going further is *direct* Government action. Washington can create jobs and decide which programs should receive the additional personnel. Alternatively, one can rely on the mechanisms of the private sector to succeed where it previously had failed by providing subsidies as an incentive.

Using subsidies has the advantage of precedent. The Federal Government has a long history of subsidizing both worthy and questionable economic goals. Moreover, with certain exceptions, the private enterprise system has performed efficiently in the past. Combining the strong points of each sector may prove to be the most effective way of building jobs and income over the long haul.

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[9] The British have used a wage-subsidy program to stimulate employment in industries in lagging areas. See William Miernyk, "British Regional Development Policy," *Journal of Economic Issues* (1969), at 12. In the United States, the WIN II program attempts to find jobs for employable welfare recipients. AFDC (aid to families with dependent children) clients are evaluated to determine what they need to become employable and are then placed in on-the-job or classroom-training programs. Employers contract with WIN to hire trainees after graduation, receiving both a tax credit and a trained worker.

JOIN: A JOBS AND INCOME PROGRAM FOR AMERICAN FAMILIES
(By Robert Lerman[1])

SUMMARY

The weak state of the national economy has deepened the problems of low income and high unemployment. High inflation rates have hurt the poor and near-poor by raising the prices they pay relatively more than the incomes they receive. And the attempt to control inflation has led to high and growing unemployment. Current Government programs reduce these burdens for some, but too often they are inadequate, unfair, unproductive, and inefficient. Benefits to some poor families are well below the poverty level or zero while benefits to other poor families are worth as much as the average job. The many income maintenance programs add to administrative costs and worsen the benefit inequities among equally poor families. Nearly all income maintenance programs deal with unemployment or inadequate earnings by providing direct benefits, neglecting to assure sufficient job and earnings opportunities. One recent proposal to help the unemployed would compensate the long-term unemployed with extended unemployment insurance benefits. However, by paying added amounts to people who do not work, this proposal might actually increase unemployment.

This paper makes the case for a jobs and income program to replace the existing welfare system and to reduce poverty and unemployment. The proposed new program, called JOIN, is based on the philosophy that guaranteeing a job to every family is the best policy for relieving the worst burdens of high unemployment and for raising chronically low earnings. JOIN would achieve the following objectives:

(1) Insure that every family or single individual had access to one public job or one private job at a subsidized wage.

(2) Replace the welfare system with a more equitable, more efficient and more work-encouraging program. The new program would provide national payment standards, narrowing the current wide disparities by State; it also would improve substantially the incentives for family stability.

(3) Reduce the unemployment rate at little or no cost in increased inflation; and

(4) Limit the budget cost of overall welfare reform to $9 billion or less.

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* Robert I. Lerman in Studies in public welfare. Paper no. 19, Public Employment and Wage Subsidies U.S. Congress, Subcommittee on Fiscal Policy of the Joint Economic Committee, Washington, U.S. Government Printing Office, 1974 3-7.

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What Is JOIN?

JOIN is a comprehensive jobs and income program. Its jobs component would offer one public job or one wage subsidy benefit to every family and single individual. If JOIN were introduced in 1975, the wage rate in the public job would be $2.30 per hour, or $4,600 per year for full-time, year-round work.[2] The wage subsidy payment would equal one-half of the gap between $3 and the worker's wage. For example, a worker with a $2 per hour job with a private firm would be eligible for a subsidy payment of 50 cents per hour, or one-half of $3 minus $2. Workers earning less than $1.80 per hour would be ineligible for a wage subsidy payment and presumably would seek a public job.

JOIN's income component would go only to one-parent families with at least one child under age 14. These one-parent families would be eligible for a cash grant in addition to the opportunity for a public job or a wage-subsidized job. Like the current aid to families with dependent children (AFDC) program and a negative income tax proposal, JOIN's income component would provide a maximum payment to families with nc other income and partial benefits to families with private income. Unlike AFDC and the negative income tax, JOIN would offer both an income guarantee and a job guarantee to one-parent families. Total net income guarantee to one-parent families of four would be $3,344.

All JOIN recipients would be subject to a surtax on their earnings and on their nonemployment income. The surtax, which would partially recoup JOIN benefits from some families and discourage participation by others, would insure that JOIN benefits went to the neediest families and individuals and would allow for differential treatment of different types of families. The surtax payment would equal 25 percent of all family earnings above some amount of disregarded earnings and 50 percent of all family nonemployment income. The earnings disregards would vary from 0 for single individuals and one-parent families with at least one child under 14, to $3,000 for married couples with no children under 18, to $5,000 for families with children under 18. Thus, a JOIN worker heading a family with children which had no other earnings and no nonemployment income would face no surtax until his earnings reached $5,000. But a single individual's first dollar of earnings would be subject to a 25-percent surtax. The immediate 25-percent surtax would reduce the value of the JOIN job guarantee to single individuals from $2.30 to $1.73 per hour.

The introduction of JOIN would coincide with (*a*) the elimination of the AFDC, AFDC-unemployed father (UF), and food stamp program; and, (*b*) the replacement of the $750 personal exemption deduction under the Federal income tax with a $170 tax credit. The tax credit would be refundable in the sense that credits not used to reduce tax liability would be paid in cash to the tax filer. Since the $750 personal exemption is more valuable than the $170 tax credit to families of four with income tax rates of 22 percent or more, most families with incomes of $17,500 or more would pay increased taxes.

The entire package would produce minimum after-tax income opportunities to all families and individuals with a full-time, year-

[2] This is the wage rate for all workers other than the following: single individuals and 1-parent families with at least 1 child under age 14, whose effective wage would be $1.73, and childless married couples, whose effective wage would be $2.10. Effective wages differ because of the imposition of a surtax described below.

round worker of $4,510 to two-parent families with two children under 18, $3,837 to married couples with no children, and $3,012 to single individuals. In comparison, the national average benefit guarantees available to these groups as of July 1972 were $2,431, $1,362, and $914.[3]

What Does JOIN Cost? By How Much Does JOIN Raise the Incomes of the Poor and Near-Poor?

The net budget cost of introducing JOIN and the tax credit and eliminating AFDC, AFDC-UF, and food stamps would be about $9 billion in 1975.[4] Federal expenditures would rise by $6.6 billion, and the loss in projected tax revenues would equal $2.4 billion. Although State and local governments would save some welfare funds, some of this money would be used to prevent income losses for current recipients. States also would be encouraged to use the rest of their savings to improve emergency assistance and temporary disability programs.

A modified, less comprehensive JOIN program could achieve substantial cost savings while continuing to raise income opportunities for most poor families. The net budget costs of JOIN would fall from $9 to $6 billion simply by excluding single individuals between age 18 and 22. Alternatively, at a gross direct cost of $4.5 billion, one could provide the JOIN job guarantee and wage subsidy components to all two-parent families and childless couples and retain existing income support programs.

The estimated gains in income to the poor and near-poor from the comprehensive JOIN program are substantial. Although the poor would lose food stamps, they would gain an aggregate increase of $7.8 billion in cash income. Almost two-thirds of JOIN's cash gain would go to families with incomes below $4,000. The largest families would benefit most. For example, JOIN would raise the average cash incomes of six-person families in the $0-$3,999 class from $2,418 to $4,328.

Many families currently receiving AFDC also would benefit financially from JOIN's replacement of AFDC. Although the JOIN plus tax credit income guarantees would be smaller than current guarantees in high payment States, and lower than the median State AFDC payment plus food stamp bonus, JOIN families could keep a higher percentage of their earnings and other income without losses in benefits than under AFDC, and JOIN would guarantee a job in addition to cash income supplements. The estimates show that JOIN would increase the average cash incomes of AFDC families whose total pre-JOIN incomes were less than $3,000 from $1,979 to $3,195.

How Does JOIN Create Productive Public Jobs?

The problems of creating productive jobs; of assigning, supervising, and disciplining workers; and of adjusting job flows for timing and geographic variations raise questions about whether a job guarantee

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[3] These were the average annual cash and food benefits available in 100 nationally representative countries, weighted by the distribution of the poverty population, for families with no income. See U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Welfare in the 70's: A National Study of Benefits Available in 100 Local Areas*, by James R. Storey. Paper No. 15 (Washington, D.C.: Government Printing Office, 1974), p. 5. Note, since July 1972, food stamp benefits have been increased by 23 percent on average.

[4] This net budget cost does not reflect the higher taxes many would have to pay because the tax credit raised their tax liability above what they would be using the current personal exemptions.

program is practical. JOIN's job creation mechanism is designed to operate as efficiently as possible. Nevertheless, unexpectedly large administrative burdens could add to program costs.

JOIN would establish a public corporation to administer its job guarantee component along the lines of Canada's successful local initiatives program (LIP). Since 1971, LIP has sponsored 15,000 projects and created over 250,000 jobs; evaluators found that community leaders believed 90 percent of the jobs produced worthwhile public goods and services. JOIN would follow much of the LIP design by soliciting proposals and granting contracts to individuals, nonprofit institutions, and government units. Project sponsors would have to sign contracts specifying exact tasks to be performed and their dates of completion. JOIN administrators would monitor the projects and would have the power to cancel or suspend projects not fulfilling contract provisions.

How productive the public jobs are in practice will determine to a large extent the success of the entire JOIN program. The specter of large numbers of people working in wasteful jobs or pursuing poor work habits is a serious concern. But JOIN public jobs also have great potential for good. Although job creation problems will be difficult in the first few years, experience will surely improve the ability to utilize JOIN workers effectively. JOIN could tap the idealism of many young people by encouraging them to devise and to run projects that productively employ the Nation's most disadvantaged workers. Such a result is not pure speculation. Many project sponsors who participated in Canada's LIP program came out of the experience with the belief that their Government listens to citizens' ideas and acts to help achieve them. JOIN could also improve the unemployed workers' self-image by making him a contributing member of society.

How Does JOIN Help Reduce Unemployment?

Attaining low unemployment and low inflation is an increasingly difficult task. The limited uses of general tax, expenditure, and credit policies have stimulated a search for other tools to reduce unemployment and to cushion its effects on the poor. JOIN offers a partial way out of the unemployment-inflation dilemma. Among JOIN's advantages as an employment expansion tool are: (1) JOIN public jobs would reach the most disadvantaged workers, who generally are in slack labor markets; (2) JOIN's wage subsidy to low wage private employment would limit JOIN's cost-push effects; and (3) JOIN's assurance of a job to all families and individuals, even in slow economic periods, would spread the burden of economic restraint more equitably.

JOIN also would help to change attitudes about unemployment. Some citizens believe that unemployment is the worker's fault, that plenty of jobs are normally available, but that workers simply refuse to accept the available jobs. Other citizens believe that steady jobs are difficult for disadvantaged workers to find, even in periods of low unemployment. JOIN would help settle the argument by assuring a large share of workers a job. Whichever view is more correct, JOIN would serve a useful purpose. If few workers actually accepted JOIN jobs because of their expectation of better jobs, JOIN would demonstrate at low Government cost that unemployment for most workers does not mean the absence of jobs, but the absence of good jobs. If many workers did accept JOIN jobs, then JOIN would show that the unemployed are willing to work even at low wages. More important, JOIN would utilize manpower which otherwise would have been unemployed or underemployed.

Why Is JOIN Superior to Standard Public Service Employment Programs?

JOIN differs significantly from most public service employment (PSE) programs, including the ones enacted under the Emergency Employment Act (EEA) of 1971 and the Comprehensive Employment and Training Act (CETA) of 1973. PSE programs provide financing for a fixed number of moderate-wage jobs; JOIN would guarantee jobs at low wages to all families and individuals. PSE programs add jobs directly only in the public sector; the JOIN wage subsidy could help stimulate added private jobs. PSE programs create new public jobs solely through the State and local government bureaucracies; JOIN would utilize nongovernmental institutions as well as Government agencies to perform useful projects with new public workers.

JOIN would create more jobs than PSE programs for any given Federal expenditure and total increase in aggregate demand. JOIN's lower wages are one reason for the larger job creation effect. The other is the greater tendency for PSE programs to help State and local governments use Federal dollars to refinance old jobs rather than creating new ones. JOIN's higher employment impact per dollar of demand would help make its inflationary effect lower.

JOIN would excel over PSE programs in targeting jobs to the disadvantaged. This is an advantage both on equity and on antiinflation grounds. By hiring only workers whose alternative opportunities are poorest, JOIN would help workers in slack labor markets within the economy and thereby limit any wage pressure that could stimulate inflation. In contrast, PSE programs hire workers whose qualifications are similar to the average worker's and whose alternative jobs may be as good as 35 percent of full-time, year-round workers. Thus, the wage pressure generated from added PSE jobs may be as high as from general increases in demand. JOIN's equity advantage is substantial. PSE programs provide a large benefit to a small percent of eligible workers and little or nothing to the rest. JOIN would guarantee a public job or would subsidize a private job on the same terms to all families with similar needs. JOIN also would improve the equity of the entire income support system by helping most those eligible for the lowest current benefits, such as poor single individuals and childless couples and all poor persons in low-payment States.

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EMPLOYMENT GUARANTEES SHOULD REPLACE THE WELFARE SYSTEM
(By Arnold H. Packer[1])

An Open Letter to the Ghost of James Madison

Mr. Madison, you and the other Founding Fathers prophesied that economic concerns would wither away if only the political structure you created would endure for a few generations. Well, Mr. Madison, as we approach the 200th anniversary of your handiwork, the millennium has not arrived. It is still mundane economics, not the philosophies and fine arts, that consumes most of our intellectual energies.

I imagine, Mr. Madison, that you thought the country would prosper and that you believed in the diminishing marginal utility of income. Well, part of your prediction was correct. I dare say we must be at least as affluent as you imagined. But, unfortunately, your view of human nature has been too charitable. Having more hasn't made us want less. We don't measure our income against a fixed standard, but rather continue to look enviously at how well our peers are doing. However, don't be too disappointed with your countrymen. Recent surveys suggest that the importance of relative income is worldwide.

We have yet to solve the fundamental dilemma of income distribution: How can we eliminate poverty without eliminating the reward for working? But we are making progress. For a long while, almost a hundred and sixty years, we didn't even think there was a dilemma. Those who didn't work didn't eat unless their family or some charity helped out—that tradition of self-reliance you bequeathed us.

Then forty years ago, well after the decadent countries of Europe, we began to realize that not everyone could work. In 1935, the Social Security Act was passed to take care of the aged and disabled, the widows and children, and the temporarily unemployed.

Thus our society institutionalized, in government, the responsibility to support those who couldn't or shouldn't work. As a nation we had passed the Rubicon and recognized that in our affluence we had a responsibility to these people. Of course, recognizing and discharging the responsibility are two different things. But given time and a mechanism, the country does reasonably well. As of July 1974, the Social Security Administration will pay its average retired couple $310 per month, and the aged poor couple not under Social Security will receive $220 from the Supplemental Security Income (SSI) program.

But, contrary to what you expected, Mr. Madison, the solution to

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one economic problem seems only to expose another, more difficult challenge. Some beneficiaries of the Social Security Act, many of those receiving Aid for Dependent Children (AFDC), can work and do work more than occasionally. Therefore, we now have to face the problem of distributing rewards among potential workers. What should be provided to single parents who have children, and what about the working poor? We recognize that the existing welfare system will not do, but as yet we cannot decide on an alternative—welfare reform, a negative income tax, wage subsidies, public sector jobs or what. That, Mr. Madison, is our current problem. Perhaps when we solve it, inflation, the energy crisis, campaign financing, and a few other things, we will be able to leave economics for philosophy and art, maybe on our 300th birthday.

Categorical job guarantees

The solution to the problems of welfare and the working poor is to provide jobs for those who can work, support for those who can't, and some combination of work and support for those who can work only some of the time. The trick is to accomplish this equitably and efficiently—at a cost the public will accept. Moreover, the program must not create incentives for fathers to desert their families or leave those who work feeling that they would be just as well off on welfare. It is proposed that the following arrangement will come close to satisfying these criteria.

The proposal's keystone is a guarantee of a fulltime job for one person in every family. Every family that contains one or more children would be entitled to one job paying one-half the median family income, that is, a wage of approximately $3.00 per hour and an income of about $6,000 in 1974. No other option would be guaranteed to families that contain two able-bodied adults of working age.

The same guarantee of a full-time job would also apply to single-parent (primarily female-headed) families. However, these families would have other options as well. The single head of a family with children could also choose, if he or she preferred, a guaranteed half-time job paying three-eighths the median income ($4,500 in 1974). The hours of the half-time job would conform to the school year, say 40 weeks of work at 25 hours per week. Both half- and full-time job guarantees would be considered fulfilled under the same conditions: when the earnings of one family member or the total unearned income received by the family exceeded one-half the median income.

These two options—full-time or half-time employment—would be the only alternatives open to single-parent families unless there were preschool children. Single-parent families with preschool children could choose to forgo both work options and elect, instead, to receive a welfare payment equal to one-quarter the median income ($3,000). Families without children and unrelated individuals would also be guaranteed full-time employment. However, the wage would be less—three-eighths the median ($4,500) for childless families and one-quarter ($3,000) for single individuals.

The various options are shown in the table. In addition to creating job guarantees, the plan would eliminate minimum wage laws and most in-kind programs such as food stamps and public housing.

Why guarantee jobs?

Every society must continually reconcile the fundamental objectives of efficiency and equity. The reconciliation is reflected in income distribution. A society so inhumane as to be concerned solely with efficiency would let those without the capacity to earn a living starve—and this includes the children of the unemployed. On the other hand, a society so muddle-headed that it passes out financial rewards equally and without regard to productivity may soon find that everyone is equally poor. Therefore, we must seek a compromise that is both humane and productive. However, our distribution—in which the poorest fifth among U.S. families receives about one-eighth as much income as the richest fifth—may be neither humane *nor* productive. The poorest fifth is the subject of most income-maintenance schemes. It turns out, coincidentally, that these are the families whose incomes are less than half the median. About a third of these families are headed by an aged person and another third by females. The remaining third are poor two-parent families.

CATEGORICAL JOB GUARANTEES—OPTIONS AND FRACTIONS OF MEDIAN FAMILY INCOME AVAILABLE TO SPECIFIED DEMOGRAPHIC GROUPS[1]

	Guaranteed employment[2]		Nonearned benefit
	Fulltime	Halftime	
Families with children:			
2 able-bodied adults of working age	1/2	None	None
Single-parent families:			
Without preschool-age children	1/2	1/4	None
With preschool-age children	1/2	3/8	1/4
Families without children:			
Aged or disabled[3]	None	None	1/4
Not aged or disabled	3/8	None	None
Unrelated individuals:			
Aged or disabled	None	None	3/16
Not aged or disabled	1/4	None	None

[1] The median income was $11,100 in 1972, and is projected to increase at a rate of approximately 6 percent annually.

[2] Guarantee is exhausted when any family member obtains employment providing income equal to or exceeding the guaranteed wage or when unearned income exceeds this amount.

[3] Persons legally designated as disabled (permanently or temporarily) could elect to take the applicable employment option.

It is the mixed demographic character of the poorest 20 percent that makes the welfare problem so complex. In addition to the tension between equity and efficiency, there is a conflict between what may be called *work equity* and *support equity*. We are torn between the Protestant work ethic—those who sow shall reap—and the Christian charity principle of supporting the needy. The Welfare Rights Organization has called for welfare incomes of $6,500, more than half the median family income. And Gallup polls over the years report that the public agrees that half the median family income is the minimum necessary for a family of four "to get along." Unfortunately, $6,500 is approximately the average take-home pay for a worker with three dependents.

Most people would be offended by an income-maintenance system that provides a factory worker no more take-home pay than the welfare recipient who either cannot or will not work. Those who decry Archie Bunker and bemoan proverty in the midst of our "affluence" should recognize that Archie and his friends take home only $6,500 a year. The average production or nonsupervisory wage is only around

$4.00 an hour. That is a gross income of $8,000 for a full year—before tax deductions, union dues and work expenses.

However, it is consistent with both work and support ethics to see to it that a family head who wants to work can earn an adequate income. Even Archie is likely to agree that, in this complicated age, it is society's responsibility to guarantee every family head the opportunity to make a living. At the same time, every able-bodied family head should be willing to work full time all year if the family contains another adult able to take care of the children. That is the line of reasoning that leads to job guarantees. However, the same ethic may lead to other solutions, and so the guarantee idea should stand the test of comparison.

Why not something else?

The poverty problem is not new, and there is no scarcity of proposed solutions—welfare, welfare reform and negative income taxes; job training and equal educational and employment opportunities; and public employment or wage subsidies. Why is the guaranteed-job scheme likely to be a better solution than these others?

The tax-and-transfer approach includes a negative income tax and all the variants of welfare reform. Certainly some taxing of the nonpoor to support the poor who are aged, disabled or have preschool-age children will be necessary. The problems arise when income transfers are used to aid the working poor. A successful negative income tax program must reconcile support and work equity. However, it is difficult to find a formula that provides adequate support to nonworkers without discouraging the poor who can work. For example, a $3,000 minimum support level which declines fifty cents for each dollar earned means some aid for everyone up to incomes of $6,000. This formula fails on all accounts: $3,000 is not enough to live on (no support equity), a tax rate of 50 percent is unfairly high at these income levels (no work equity), and a program this "generous" would cost too much to be politically viable. The welfare reform proposal that was defeated last time had only a $2,400 minimum support and a tax rate of 67 percent.

How would guaranteed employment compare? The proposed scheme also provides only $3,000 to a nonworking family. But it allows the family many choices for increasing that income from other sources (such as part-time employment, Social Security survivors' benefits and disability payments)—and allows it to keep most of what it earns. The plan would be even more expensive than welfare reform: perhaps $12–$15 billion for a total program. However, Social Security expenditures increased by $35 billion over the last six years, and so the question is not only cost but whether what's bought is worth the price. There is no right or cheap answer to poverty, but rather, a solution which is politically best because it conforms most closely to what the public thinks fair and efficient.

Tax and transfer schemes, whether implemented or proposed, have not been politically attractive. The demogrant idea proposed by candidate George McGovern ($1,000 for every person) went nowhere. And everyone agrees that the current welfare system should go someplace where it can be forgotten. The current welfare system fails because (among other things) it tries to separate the workers from the nonworkers but succeeds primarily in separating fathers from their families.

Can categorical job guarantees avoid this pitfall? Some say that the moment benefits are categorical—that is, depend on family status—incentives to alter family status are created. However, family structure incentives are inevitable whether the program recognizes family status or not. Even a demogrant would create incentives to live together—and have a larger family if one more mouth could be fed for less than $1,000 a year. Moreover, the job program described earlier is designed to be neutral. A single woman would have little to gain financially by having a child. And a father would have little financial reason to leave his family. He would have to take one child to be eligible for a family head's job, and then the family would gain access to a second job or $3,000 only if there was a preschool-age child. If a husband wants encouragement to leave the bosom of his family, it will have to come from another source. It is true that a woman whose youngest child has entered school might have an incentive to have another child to avoid losing her $3,000 stipend. But why, when she could work half time and increase her income by 50 percent?

The current welfare system not only encourages the father to leave his family but also tempts recipients to hide earnings or other income. This failing would be true of negative income tax schemes that have tax rates of 50 or 67 percent. There may be some incentive to be dishonest in the proposed job-guarantee program also. But it is much less venal than the cheating encouraged by the current welfare program. Under guaranteed employment, cheating provides only an extra job—not extra unearned money.

Another problem with welfare programs is the income "notches" they create. Earning the last dollar that takes one off the welfare roles means the loss of many dollars in welfare and ancillary benefits. The sum of public housing, Medicaid, food stamps and related programs costs more than AFDC. These extra benefits often make leaving welfare a financial disaster. This is a problem that a negative income tax is supposed to cure, but it would be difficult to do without penalizing many current welfare recipients. In general, the notch problem is not as difficult under a guaranteed-job arrangement. The family head can moonlight; other family members can work; and, except that normal taxes must be paid, there is no penalty until some second family member passes the $6,000 income mark. Moreover, the family head may be successful enough at his guaranteed job to encourage his public employer (or someone else) to offer him, or her, a regular job at a higher salary.

If and when another worker in the family earns $6,000 or more, the family head would no longer be eligible for the guarantee. At first blush earning the last few dollars creates a severe penalty. The family's income will drop from $11,999 to $6,001 as the second worker's salary passes the $6,000 mark. But obviously it doesn't have to be that way. If a man's wife gets a raise from, say, $5,009 to $6,500, he can quit the program and go get the best job he can in the open market. More importantly, a notch at an income of $11,999 hardly appears to be a social problem.

The strength of the plan is that there is nothing to keep the family head from going out and seeking the best job he can and forgetting the guarantee. In fact, there is nothing in the plan that *forces* anybody to do anything, or to forgo any promising opportunity. Only the government is forced to guarantee that every family head can have a job at a "decent" salary if he wants one and that a single parent can get a job that conforms to the children's school year.

All of the welfare plans, negative income taxes, and demogrants are plans to support the poor without asking anything in return. The political difficulty of upsetting work-equity values in this way has led many economists and politicians to seek a solution to poverty via a change in the distribution of earned income. (If we divide the population into five income groups, almost two-thirds of the income differences among the quintiles are a result of variations in average earnings per worker—a combination of lower wage rates and sporadic employment.)

One vehicle for changing earned income is the human capital approach, which includes equal educational opportunity, job training, fair employment laws and so on. The approach has been challenged on empirical and theoretical grounds. Job training hasn't fulfilled its promise. Christopher Jencks, in Inequality, has challenged the premise that education influences income. Lester Thurow has suggested that the economy generates the income distribution and that educational differences determine only who will be at the end of the line. As a wise old lady once said, everyone can't be above average. Another tactic is to use macroeconomic policy to maintain a condition of overemployment in which employers are forced to upgrade their workers. Recent inflation experience suggests the price of that policy is too high.

Thurow's *market-structure approach* discards the optimism of human capital and holds that unless the labor market itself is changed we all can't be better off—irrespective of investments in education or training. Thus, without structural change there may always be a dual labor market. One market will have good, steady, well-paying jobs for those who have made it, while the other will offer sporadic, unpleasant, dead-end jobs to those who haven't.

Minimum wages laws are a historic attempt to change the market structure. Unfortunately, the minimum wage rate is always too low to allow a breadwinner to support his family yet high enough to eliminate many jobs that secondary family workers would otherwise take. Noncategorical public employment-of-last-resort encounters the same problems. If the program gives a job to everyone, it will either be too large, pay salaries that are too low, be too expensive— or have all of these disadvantages.

The point is that if Junior or the ne'er-do-well husband of a successful woman executive (or, parenthetically, the wife of a well-paid husband) can't find an adequate job, it is no great social loss. But a father who can't maintain his family's economic well-being or respect because he bounces from dishwasher to delivery "boy" creates an unacceptable situation. That is the problem to be met and solved.

The simplest solution is the most direct one: guarantee family heads a job at an adequate income. The judgment here is that adequate means half the median family income and twice that given to welfare families. Making the guarantee categorical—one per family—means that the help can be focused where the problem is and the cost be kept within bounds. The net cost of the whole program—salaries less the savings on welfare, food stamps, and public housing—is likely to be less than one percent of GNP.

Those who have agreed with the argument up to this point might still believe that subsidized employment is a better idea. That is, find some way to make up the difference between whatever a family head makes in the private sector and the target of $6,000. Wage subsidies have a number of attractive advantages. The public cost may be less because the government need pay only the difference between the private wage and $6,000. Moreover, wage subsidies would not disrupt current market structures very much. Finally, the work now done by family heads in low-wage jobs may be more socially useful than assignments dreamt up in pubic employment.

However, wage subsidies are inferior to guarantees on two important counts. Subsidies create powerful incentives for collusion between employer and employee. Rather than agree on a rise that will reduce the subsidy, it is to everybody's advantage to arrange for hidden payments enabling boss and worker to split the government's payment.

Secondly, distrubing existing labor markets may not be all bad. Why should the public subsidize private employers who do not upgrade jobs? Job guarantees will force desirable changes throughout the job market for family heads who earn close to $6,000. Their employers will have to make wage-job condition offers that compare favorably with the new jobs. Thus, in contrast to welfare programs that drive Archie Bunker up the wall, categorical job guarantees should look good to most blue-collar workers. However, such a program won't be without problems.

Mechanics and problems

A typical response to the job-guarantee proposal is: How would it work, and where would you find the jobs? It might operate this way. A person goes to the Federal Employment Service office in his city and declares that he or she is a family head living with his or her children and that no other family member is earning $6,000 annually. The Service then has a limited time, say ten working days, to check the applicant's eligibility and find him a regular job, in either the public or the private sector, paying at least the guaranteed wage. If the job search is unsuccessful, the applicant is placed in a "special" public-sector job paying $120 per week. The Service is required to maintain a list of these special job openings so that it will always be able to accommodate any applicant it cannot place in private or regular government jobs.

What could these people do? Well, for one thing, they could be contracted out—at full pay—to private industry. Many firms are willing to pay $3.00 an hour for temporary employees. The rest of the job opportunities consist of urban beautification workers, school and hospital assistants, playground attendants, traffic directors, and so on. Some success has been reported in experimental public employment programs in Canada and New York City.

Administration will, no doubt, be a serious headache; and maintaining the morale of other government workers won't be easy. However, if the most difficult problem in society is to find useful work for the welfare clientele, then—for God's sake—let's not give the hardest problem to the least talented. The cynic may say that these people can hardly do worse than many government employees who get paid much more than $6,000 to study poverty. And the optimist will hope that the government has enough ingenuity to use these free resources in an imaginative and productive manner.

There are other problems. Firms that stand to lose current employees to these public-sector jobs will be hurt. And in some regions there will be many such firms. However, to a great extent this will be good riddance to a bad system. There should be little regret at the passing of the sight, familiar in many southern towns, of grown men waiting for an employer to come to town to offer them a day's work for ten or fifteen dollars. Moreover, these employers will still be able to offer employment to the childern and wives of these men—and without concern for minimum-wage laws. Or, these firms can hire labor from the government on a contract basis.

Some women may be unhappy about categorical job guarantees because the plan reflects a judgment that the family is the basic sociological and economic unit and thus may threaten the job of the family head's spouse. Some women whose husbands earn middle- or upper-class incomes and who themselves hold vulnerable government jobs may lose those jobs to male or female family heads (but those women who have the necessary professional or secretarial skills these family heads lack needn't worry much.)

However, the women who need liberation most will benefit greatly. A third of the families in the lowest quintile are headed by females. These women will have many more opportunities—including the opportunity of re-acquiring the husbands who left them so that their families could become eligible for welfare. The wives of men who will earn a decent, steady living for the first time or whose wage will be bid up by the presence of the job guarantees will surely welcome being liberated from poverty.

The guarantee will put inflationary pressure on the bottom end of the wage scale. But since the guarantee is written in terms of median income, the inflation must ultimately be the mechanism that transfers real income from the higher income groups to the lowest one. That means that most of us who read (and write) this magazine will get somewhat smaller raises while the lower group catches up. (Those unfamiliar with the data may be shocked to find out how "rich" they are. An income of $15,000 in 1972 put a family in the top third of the income distribution, and $20,000 put it in the top 15 percent.)

Job guarantees along the lines described above might increase the share of the income pie going to the poorest 20 percent by two percentage points (from 5.5 percent to 7.5 percent of the total). Most of the increase would come from the highest 20 percent, as it should if income distribution in the United States is to be more humane.

The program will be difficult to administer. It will take an extraordinary amount of imagination to motivate the army of workers to do productive work in the face of a guarantee. Unless there is proper planning, private and public labor markets will be disrupted. Certainly experimentation should precede full-scale operation. Unfortunately, there are no easy, problem-free solutions to poverty.

BEYOND THE SAFETY NET:

REVIVING THE PROMISE OF OPPORTUNITY IN AMERICA*

(By Sar A. Levitan and Clifford M. Johnson)

THE AVAILABILITY OF JOBS

Conservatives have succeeded in challenging the willingness of the poor to work largely by treating job availability as a given. Recognizing that poverty and work motivation can be plausibly linked only if jobs are available for those who seek them, they profess confidence in market mechanisms while ignoring the evident lack of employment opportunities for millions of Americans, not only in recessions but also in good times.

The most vivid examples of refusal to acknowledge labor market conditions can be found in President Reagan's faith in job availability amid postwar record unemployment. During the worst recession since the Great Depression, Reagan clung to the theme that opportunities for work abound:

> Pick up the Sunday paper and look at the number of help wanted ads. Here are employers begging for employees, taking ads out for them at a time of the highest unemployment that we've known since the war."

> In the great metropolitan centers . . . you count as many as 65 pages of help wanted ads. . . . These newspaper ads convinced us that there are jobs waiting and people not trained for those jobs."

The administration's only concession to widespread joblessness lay in the acknowledgment that workers with a record of sustained employment may lack the skills to obtain available jobs.

Except when unemployment reaches well into the middle class, the mismatch between available work opportunities and the skills of the unemployed receives scant attention from conservatives. Lack of skills may explain joblessness among the nonneedy, but it is assumed that the poor are suited only for unskilled work and unwilling to work at commensurate wages. The presumption of job availability remains:

> There are unskilled and lowskilled job openings around galore—but why should welfare recipients take them? Poor people may often be of low intelligence, but they are not stupid. Why should they work? Hundreds of thousands of low-skilled jobs are going begging in state employment offices. Metropolitan newspapers carry many pages of "help wanted" advertising."

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The availability of unskilled employment is rarely substantiated, and yet this premise is crucial to the finding that "there are millions of persons who will settle for small but easily obtainable income if it enables them to avoid work." [32]

Perhaps the ultimate defense of the motivation thesis has been crafted by George Gilder, who contends that individuals can "create their own jobs" because "their supplies of work and human capital can engender their own demand." [33] Gilder's vision is one in which every person, however bereft of resources, is an entrepreneur who can reap economic gains simply through perseverance and hard work. A similar belief in individual empowerment has led another conservative observer to label poverty and unemployment in New York City a "state of mind," concluding that "in a metropolis those willing to accept any work—not holding out for something meaningful and ennobling—can make a living and even save money." [34] Opponents of government intervention believe, as a tenet of faith, in the supremacy of motivation and will. By definition, the problem of job availability no longer exists.

The conservative view of job availability, however comforting, is sharply at odds with labor market data. Job deficits in the private labor market fluctuate with business cycles, swelling dramatically during recessions—for example, the unemployment rate jumped from 5.7 percent in mid-1979 to 10.8 percent in December 1982. At the peak of this most recent recession a total of 12 million Americans were out of work, another 6.6 million were forced to settle for part-time employment, and 1.8 million abandoned the search for work because of the discouraging prospects in a slack labor market. The fact that so many individuals in all income groups continued to look for jobs amid deteriorating employment conditions is itself a testament to the strength of the work ethic in modern America.

Anecdotal evidence gleaned from the help wanted page does not refute the persistence of job deficits. Investigations of President Reagan's claims of job openings have revealed that employment advertisements are dominated by highly specialized occupations and frequently placed to fulfill the requirements of equal opportunity hiring procedures. For example, an American Vocational Association survey of vacancy listings placed in *The Washington Post*, found that 92 percent of publicized jobs required some training, and nearly three-fourths announced highly skilled positions. Others have documented that the volume of help wanted advertisements during the recent recession fell far below normal levels. Although manpower shortages persist in skilled and highly technical occupations, the presumption that entry-level jobs are widely available in slack labor markets is simply not credible.

Along with deficient aggregate demand, a variety of other factors can restrict individual employment prospects. Labor surplus areas persist in older industrial cities or in remote rural areas even during periods of relatively high employment nationally. Structural changes in the economy, whether fueled by technological change or foreign

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competition, also skew the geographic distribution of employment opportunities. Finally, a racial discrimination, lack of skills, and diverse individual handicaps can render job openings meaningless for persons at the end of the job queue, leaving no practical option for gainful employment and self-sufficiency.

Job deficits for selected groups have persisted despite strong growth in the national economy. During the relatively prosperous 1950s, reductions in demand for U.S. coal, textiles, and other domestically manufactured consumer products created depressed areas in the Northeast and Appalachian regions. Despite the manpower requirements of the Vietnam war, inner city areas continued to suffer serious job shortages in the high employment years of the late 1960s. Unemployment rates crept upward with each successive recession during the 1970s, never returning to their prior levels. Throughout these trials the work attachment of disadvantaged groups has remained strong, and widespread joblessness has triggered no mass exodus from the labor force.

The data provide ample basis for viewing with great skepticism the implicit claim of opponents of social programs that the major obstacles to employment and self-support among the poor are lack of motivation and unwillingness to work. Further, the composition of the poor population indicates that greater job availability itself would not resolve the poverty problem. A large number of Americans live in poverty in spite of their ability to find and retain full-time employment. To the extent that conservatives trace the causes of poverty to the moral character of the poor, they mock the struggles of millions who work for a living but fail to earn an income adequate to reach even the poverty threshold.

WORKING TO ESCAPE POVERTY

A nation committed to social justice has an obvious interest in productive work as an alternative to welfare dependency. Gainful employment lessens the drain of income maintenance on limited public resources and provides the individual with a sense of dignity and hope. It is hardly surprising that the goal of moving welfare recipients off the rolls and into private employment is embraced across political and ideological spectra.

The emphasis on work as an alternative to welfare becomes more problematic when work is touted as offering certain escape from poverty. Opponents of government intervention contend that modern American society provides ample opportunities for upward mobility, allowing the motivated and industrious among the poor to lift themselves out of poverty through hard work. This portrayal depicts a labor market in which performance yields promotions, and achievement is a function of individual effort. An inevitable conclusion, given this perspective, is that those who languish in poverty do so as a result of their own shortcomings—their lack of motivation and commitment paramount among them.

The potential for self-advancement through work has been asserted most forcefully by George Gilder. Calling the United States "probably the most mobile society in the history of the world," he professes

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unbounded faith in progress through personal effort and stresses that escape from poverty "still inexorably depends on work." [35] In his view every successful ethnic group in American history escaped from poverty by working harder than other classes—a struggle in low-paying jobs which today's poor presumably are unwilling to undertake.[36] The culmination of Gilder's argument can be found in his conviction that the rich and poor are unable to live in close proximity without tension because "all but the supremely rich know they can plummet down, and the poor know that their condition is to a great degree their own fault or choice." [37]

President Reagan demonstrates a similar allegiance to the Horatio Alger dream of unlimited opportunities for self-advancement. The potential for upward mobility defines his sense of America: "What I want to see above all else is that this country remains a country where someone can always get rich. That's the thing that we have and that must be preserved." [38] Reagan's outlook transcends hopes for a prosperous society. Extrapolating from his own modest beginnings, Reagan appears to believe that every American has the chance to rise from rags to riches and that those who suffer bleaker fortunes have only themselves to blame.

While the goal of an open and affluent society is broadly accepted, it is grossly misleading to suggest that upward mobility through work in itself offers a meaningful solution to the problems of welfare recipients. Seventy percent of all AFDC recipients are children, most of whom are below working age. Of the remaining 30 percent a majority are precluded from working by mental handicaps, physical disabilities, or childrearing responsibilities. The most ambitious demonstration projects undertaken to encourage work among welfare recipients have been applicable to a mere 15 percent of the AFDC population. Opponents of social welfare programs perpetuate the myth that work is a realistic option for most welfare recipients, that only the spirit is weak. Yet innumerable studies have shown that social, economic, and personal circumstances are far better predictors of welfare dependency than is any aversion to the work ethic.[39]

Even for recipients deemed employable, the private labor market is seldom capable of providing an adequate income. One in four AFDC mothers has no work experience, and those with a record of prior employment are heavily concentrated in low-paying occupations, including service and clerical workers, laborers, operatives, and private household workers.[40] Without skills and valuable work experience the employable minority on the welfare rolls rarely gain access to jobs with decent wages, long-term stability, and opportunities for advancement—the attributes of a *good job* which alone can provide an escape route from poverty.[41] The earnings capacity of most welfare recipients certainly does not exceed that of the working poor, an indication that even steady employment for the welfare poor would not ensure their self-sufficiency.

The plight of the working poor contradicts most starkly the claim that an ardent commitment to work can ensure a life free of deprivation. In 1982 more than 9 million Americans worked during some part of the year and yet lived in poverty. Almost a third of these poor

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workers—nearly 3 million—labored the entire year but were paid wages too meager to offer them escape from indigence.[42] The image of the lazy and unmotivated choosing poverty in order to avoid work is irrelevant to this large body of impoverished Americans, whose devotion to the work ethic is tested to a far greater degree than that of more affluent workers.

In response to the grim realities of the working poor, conservatives reiterate their faith in upward mobility for the industrious and talented. If their optimism regarding prospects for advancement were warranted, the problems of the working poor could be accepted as either a temporary affliction or the fate of those lacking motivation and talent. Unfortunately, there is little reason to believe that mobility is a function of individual effort in modern America. The persistence of secondary labor markets, barriers to entry in selected occupations, and discriminatory employment practices all limit opportunities for advancement and self-sufficiency through work.

Current labor market conditions strongly support the hypothesis that the labor market is segmented, offering relatively high wages, good working conditions, job security, and chances for advancement to the majority of American workers while providing the rest with low pay, poor working conditions, unstable jobs, and few promotion opportunities.[43] Because workers in secondary markets are often forced to accept intermittent employment, their incomes tend to fall short of their full-time earnings capacity and below the poverty line. Moreover, since the working poor frequently hold unskilled jobs, they are unlikely to acquire higher skills on their jobs that would assist them in the transition from secondary to primary labor markets. The existence of primary and secondary markets side by side leaves unskilled workers trapped in dead-end jobs in which their motivation and effort have no appreciable impact on future advancement or capacity for self-support.

Patterns of labor market segmentation are strengthened and influenced by racial discrimination and barriers to occupational entry that hinder the advancement of disadvantaged minorities. Some progress has been made, as a direct result of federal mandates and interventions, in reducing the prevalence of discriminatory employment practices. Nonetheless, with rising levels of educational attainment and aggregate unemployment, the use of credentials or licensing requirements as barriers to entry in the primary labor market probably has increased in recent years. Both factors continue to frustrate the efforts of the disadvantaged to pull themselves out of poverty.

In the face of these obstacles to upward mobility, the commitment to work among disadvantaged groups persists nevertheless. An analysis of data from the 1979 national longitudinal survey of youth labor market experience found that, holding constant human capital, family background, and environmental variables, black youth are more willing than their white counterparts to take jobs paying less than the minimum wage.[44] The evidence also indicates that minorities travel farther to their jobs, further reflecting the strength of their labor force attachment. When thousands of candidates assemble in urban areas to apply for a few entry-level jobs and the great majority of the working poor continue to work for marginal financial rewards, it seems clear

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that the predominant causes of poverty lie beyond a willingness to work. Blacks from lower quantile socioeconomic status are also more likely to go to college than whites sharing the same status.

Poor prospects for advancement and inability to earn wages sufficiently high to lift families above the poverty level have taken their greatest toll among older black men. As recently as 1960 the labor force participation rates of white men and black men were identical; since that time participation rates for black males have fallen from 83 to 71 percent while that of whites dropped more modestly to 77 percent. Some analysts have seized upon the declining participation and higher unemployment rates of black men as evidence that they refuse to accept jobs and prefer welfare to work. The observation is partially accurate: regardless of race, the advantages of holding a low-paying job with intermittent forced idleness in the secondary labor market, compared to a life of crime or welfare dependency, have diminished over the past two decades. Not surprisingly, a segment of American society finds criminal activities or unreported work in the underground economy an attractive alternative to dead-end employment at subsistence wages. However, the crux of the problem lies not in the willingness of black men and other segments of the disadvantaged to work but in the inadequacy of prevailing wage rates and earnings in the secondary labor market.

The fundamental conflict between the goal of alleviating poverty and the economic interests of employers who rely on a ready supply of low-wage labor has long stymied progress toward social justice. If the returns of low-paying work are not enhanced, employment for many unskilled, deficiently educated, and discriminated against workers will provide no escape from poverty. If subsidized employment is offered to ensure an adequate income for workers and their families, millions of low-wage workers in unsubsidized jobs will seek such employment. Policies that emphasize work effort among the poor while ignoring their limited earnings capacity may serve the needs of employers for low-wage labor but will not lift the working poor to self-sufficiency. Furthermore, as long as workers remain poor despite their labors there can be no hope of reconciling the demands of equity and compassion in the treatment of the nonworking poor.

The case for improving work in secondary labor markets, through changes in tax and incomes policies, has been summarized succinctly by Nathan Glazer:

> If one reason for welfare is the abandoning of families by men who cannot get steady jobs, or whose jobs simply do not provide enough for themselves and their family, an effort to improve poor jobs will have an effect. If another reason for welfare is the unattractiveness to many mothers of the jobs they could get, this approach will also have an effect. . . . It requires no measure of compulsion to get people to work and it adds to the attractiveness and, we might say, the dignity of work.[4]

The adoption of public policies to supplement the earnings of the working poor is thwarted primarily by concerns for "dependency" and traditional beliefs in work as the solution to poverty. Only when federal policy ceases to treat work and poverty as mutually exclusive will it be possible to construct a more rational approach to the problems of needy Americans.

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THE MEANING OF DEPENDENCY

Opponents of federal welfare policies tend to equate the receipt of public assistance with dependency: if an individual draws funds from the public coffers, that person is dependent. This notion of dependency makes no significant distinction between those who rely on welfare as their sole source of support, those who secure assistance to supplement their meager earnings, and those who receive stipends or grants while undergoing training or attending school. Success in battling dependency presumably can be measured by changes in the size of the welfare rolls. Hence, efforts to reduce poverty through income transfers by definition exacerbate the problem of welfare dependency.

The distillation of many degrees of reliance on welfare assistance into the extremes of total dependency and self-sufficiency has become a hallmark of Reagan administration welfare policies. Beyond provisions for those who cannot work (the deserving poor) the administration contends that federal benefits should be limited to temporary relief for those who should support themselves. President Reagan has argued that federal social programs frequently "destroyed pride and created a feeling of helplessness among those who needed encouragement and hope."[46] According to David Stockman, the Reagan administration's Director of the Office of Management and Budget, assistance to the working poor to supplement wages leads to "permanent dependency."[47] The Heritage Foundation has extended this opposition to aid for the working poor, claiming that welfare provisions that allow recipients to keep a sizable portion of their outside earnings have failed simply because "recipients who worked remained indefinitely on the welfare rolls."[48] From this perspective work and welfare never mix, and the only legitimate goal of government intervention is total self-sufficiency through work.

The meaning of dependency for those opposed to helping the working poor is illustrated graphically in President Reagan's drive to force the working poor off the welfare rolls. Convinced that all workers should be able to support themselves and their dependents if they try hard enough, the administration has sought to terminate poverty-stricken families from AFDC, thereby ensuring that they do not obtain a "false sense of security" and providing "the incentive to make the transition from welfare to self-support."[49] Throughout the debate on its welfare proposals the Reagan administration has insisted that restricted eligibility and reduced benefit levels would not harm recipients with genuine need, applauding "reductions in dependency" with confidence that those who lost benefits found other means of self-support.

Consistent with the Reagan administration's ideology, 1981 budget cuts in the AFDC and food stamp programs fell heavily on those recipients with earned income, raising marginal tax rates dramatically and rendering some ineligible for federal assistance. As a result of these changes the disposable income of the typical AFDC family with earnings fell in every state in 1982, and in twelve states the impact on work incentives was so severe that a nonworking AFDC parent with two children ended up better off than a working parent in similar cir-

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cumstances. In California an AFDC recipient realized almost no gain by earning an additional $100 to $350 per month and actually would have lost income at the margin by earning more than $350 through work.[50] Nationwide, the disposable income of the average AFDC working family fell from $595 per month in fiscal 1981 to $476 in 1982 as a result of the Reagan cuts, moving the same average family from 101 percent of the poverty line in 1981 to 81 percent in 1982.[51]

In the wake of President Reagan's welfare cuts many observers predicted that recipients would find it advantageous to quit their jobs and rely solely on welfare for support. Although data on the percentage of terminated recipients returning to the welfare rolls are limited, preliminary evidence suggests that most recipients forced off the rolls have not abandoned work and returned to the welfare system. An exploratory study by the Research Triangle Institute concluded that only 15 percent of those working recipients who lost their benefits in late 1981 and early 1982 had returned several months later to the rolls in the same county in which they had initially enrolled.[52] Richard Nathan similarly found in a survey of selected states that only about 10 percent of those who lost their benefits due to lower income ceilings and altered tax laws have reappeared on the rolls, resulting in a net reduction in the size of the welfare population nationally of 9 percent.[53] A few states have reported higher rates of return, including estimates in the range of 30 to 40 percent in Wisconsin and Oklahoma.[54] However, it appears that most families with earned incomes were able to cope with marginal losses without resorting to complete dependency.

Administration reactions to these findings have rendered its view of dependency unmistakably clear. The White House cited the Research Triangle Institute study as proof that the administration's welfare cuts have been "extremely successful" and that working recipients were "removed from dependency."[55] Because the Reagan philosophy characterizes any contribution to an individual's income through welfare as dependency, the option of gradually phasing out benefits to provide positive incentives for increased work effort is rejected as a matter of principle. The administration policy is not to redefine the inevitable balance between work incentives and targeting; its intent is to eliminate the tradeoff completely by removing from the rolls any person capable of work and providing assistance only to the deserving poor, giving them as little as possible to ensure that they remain truly needy.

Defendants of Reagan's welfare policies argue that budget cuts weakening work incentives constituted a small portion of total welfare expenditures and that the prior balance between work incentives and targeting of benefits was not sacrosanct. However, the disturbing aspect of the administration's assault on work incentives is that its concept of dependency leaves no room for *any* reasonable mixture of work and welfare to meet the needs of the working poor. Jodie Allen, a Carter administration official and advocate of combining work with welfare, emphasized the extremism embodied in the administration's approach, stating, "If your single criterion for welfare success is saving money, you might as well close all the welfare offices. None of the

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recipients would then be 'dependent.' Hungry, maybe, but not dependent."[56] Indeed, the Research Triangle Institute investigators questioned the conclusion that the policy could be labeled a success, adding "we cannot say how people coped."[57] Given that the people affected by the Reagan cuts live on the margin of poverty, their impact on the work effort of recipients is in part irrelevant to their merits as sound welfare policy. As Peter Edelman has stressed, an assault on work incentives is counterproductive whether or not recipients continue to work because it will either result in more welfare outlays or require people to work for wages that will bring lower incomes than they received on welfare.[58]

Throughout the past two decades analysts have stressed that the goals of adequate basic benefits, meaningful work incentives, and affordable program costs in federal welfare programs inevitably conflict.[59] Since the 1967 amendments to the Social Security Act—through two Democratic and two Republican administrations—welfare initiatives have recognized the need for compromise among these competing goals and sought to improve previously neglected work incentives. The result of such reforms has been to channel a portion of total welfare benefits to less needy individuals, an outcome that the U.S. Chamber of Commerce has recognized as necessary "in order to provide adequate rewards for those who work and earn."[60] The Reagan administration has reversed this drive toward balance in the targeting of welfare benefits with its unrelenting emphasis on the truly needy.

Societal standards of justice and generosity of course are relative, so it can be argued that the working poor who subsist near the poverty line do not "need" public assistance. Yet to portray recipients affected by Reagan's budget cuts as having comfortable or even adequate incomes is to conceal the true extent of their suffering and sacrifice. Working as hard today as in 1980, the working poor are less able to provide for their families and meet their basic needs. The unwillingness of conservatives to abandon a pathological view of poverty and to allow work and welfare to mix also enhances the difficulties of moving the nonworking poor from the welfare rolls to self-sufficiency.

The lives and experience of the working poor contradict the basic tenet of traditional free market advocates—that poverty stems from lack of motivation and willingness to work. Individuals without earned incomes can be dealt with in straightforward fashion: supported with public funds if unsuited for work and compelled to work if judged capable of self-support. Harsh or rigid determinations are justified with the assumption that work is available at wage levels that will lift the able bodied, sooner or later, out of poverty and dependency. Only the working poor present an anomaly in this otherwise neat explanation of poverty. Perhaps it is for this reason that ideological conservatives have chosen to turn their backs on the working poor, whose struggles and commitment to work most closely approximate the conservative vision of the American dream.

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PUBLIC JOBS FOR THE PUBLIC GOOD
(By Nat Weinberg)

Public service employment is usually thought of as a means to provide work and incomes for the unemployed. Crucial though that purpose is, it overlooks the fact that public service employment can and should help avoid the losses to society resulting from failure to make constructive use of available labor time which, once dissipated in idleness, can never be recovered.

WPA provides an instructive lesson in this regard. It utilized the abilities and talents of the unemployed—whether to construct buildings, roads and bridges, or to write guidebooks, paint pictures, stage plays or to develop new statistical series—to make enduring contributions to the Nation's physical, cultural and intellectual wealth. At the same time, of course, WPA helped to maintain the morale of those it employed, to preserve and improve their skills, and to provide them with incomes.

Although WPA never came near to providing jobs for all the unemployed, it nevertheless did demonstrate that an attempt to use the abilities of the jobless for society's benefit need not run up against the sharp numerical limits on job creation inherent in today's narrower concept of public service employment as essentially a means to supplement existing public functions. At its peak, WPA employed close to 3 1/2 million workers in a labor force roughly three-fifths the size of today's, and, given sufficient appropriations, could have provided useful employment for many more.

Use of the abilities of the unemployed for socially desirable purposes makes sense even from a crass economic standpoint. As a society, we reject the notion that those without jobs should be left to fend for themselves. One way or another—through unemployment insurance, food stamps or welfare—we protect them (although often inadequately) against starvation. Giving them work would mean gaining something of value to offset the cost of keeping them alive. Even when providing the unemployed with work would mean additional outlays for capital equipment, supervision, wages, etc., the offsetting value of their contributions, at the very least, would usually result in lower net dollar costs than those of sustaining them in idleness. More likely, there would be a net gain, rather than merely a smaller net cost. When less easily measurable costs of unemployment--increased crime, deterioriation of morale and skills, family disruption, psychological problems, increased suicide rates, etc.—are taken into account, a net gain seems certain.

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Given the hardships and economic waste caused by unemployment, a humane and rational society would insist that the primary goal of economic policy should be stable full employment—defined not in terms of a target unemployment rate but rather as Sir William Beveridge defined it in "Full Employment in a Free Society." He wrote that full employment:

> "means having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them; it means, by consequence, that the normal lag between losing one job and finding another will be very short.1/

To put it another way, unemployment would be reduced to the minimal frictional level.

Unfortunately, during the 1960's and early 1970's, the U.S. unemployment rate has averaged about 2 1/2 times as high as the weighted average rate for the other industrialized democracies for which the Bureau of Labor Statistics computes comparable figures. Despite the far greater vulnerability of those other countries to fluctuations in demand for their exports, none of them (except Canada, whose unemployment rate is largely determined in the U.S.) has even approximated the levels to which U.S. unemployment has soared.

There is no immutable law that condemns us to such unemployment levels. We know now that the level of unemployment is a function of economic policy. Nevertheless, the history of U.S. tolerance for unemployment suggests at least a strong probability that there will be room and need for greater numbers of public service jobs for years to come. With that as the outlook, it is not enough to think in terms of merely peripheral and temporary public service employment programs intended to take up the transitory slack in demand for labor that might be caused by unforeseeable and uncontrollable events. Instead, there will be need for massive, continuing programs which should be carefully planned to yield the maximum possible social and economic benefits.

1/ William H. Beveridge, Full Employment in a Free Society (New York: W.W. Norton and Co., 1945), p. 18.

In view of the magnitude of the unemployment problem we seem likely to face in the years ahead, the bulk of the publicly provided jobs will have to come from expanded and accelerated public works programs and from the standard form of public service employment involving augmentation of existing public services. Public works employment, although expensive per job directly created, offers some hope of further reducing the overall size of the unemployment problem through its indirect effects in stimulating the materials-supplying and transportation industries (although part of that stimulus will result in more hours of work for those already employed rather than recall or hiring of additional workers). The standard type of public service employment, although offering a vast job creation potential because of the widespread inadequacy of many public services, presents the problem of the "revolving door" or "substitution" effect involving the replacement of regular workers by others financed out of funds made available under public service employment programs. (It should be possible, however, to avoid or minimize that effect.)

The inadequacies of public services suggest that expansion of public service employment should not be regarded primarily as a mere stopgap to take up temporary slack in the labor market, but as a permanent feature of our economy. That would be true even if the private economy offered far more job opportunities than it does now or is likely to offer in the future. There is nothing inherently more virtuous or valuable in $100 spent privately in a night club than the same amount spent publicly on health or education. A healthy competition between the public and private sectors for a supply of labor insufficient to meet the full demands of both would fulfill the first of the conditions in the Beveridge definition of full employment.

The prospect of a heavy burden of unemployment in the years to come affords us an opportunity to experiment on a large scale with new forms of public services and new methods of delivering them. In the following pages I will attempt, first, to describe some of the kinds of services that it would be useful to provide and to suggest forms of organization that could be used to deliver them. The delivery system is intended primarily as a means to help restore the sense of community that seems rapidly to be disappearing from our society--to replace atomization, loneliness and alienation with the warm and close bonds that unite neighbors when they have frequent occasion to meet and to join in activities of common interest. In addition, I will attempt to deal with some of the practical problems that would be encountered in conducting the kinds of activities I propose.

New Kinds of Services

The word "new" in the heading of this section is to some degree an exaggeration. As I prepared to write this paper I was amazed to discover how many of the kinds of services I had in mind were already being provided in scattered localities across the North American continent, under the CETA program, the Canadian Local Initiative Program (LIP), or by private, voluntary organizations. At the risk of being accused of reinventing the wheel, I will, nevertheless, include services already being furnished in one way or another in the hope that something new and useful will be found in my conception of them.

By way of further preface to the description of the services themselves, three additional points should be noted. The first is that a number of the activities suggested call for a wide range of skills. For example, drama requires (or, in some cases, may require) not only actors but also musicians, costume designers, set designers, stage carpenters, stage electricians, etc. In many cases, the nature of the skills auxiliary to the primary activity will be obvious and I will not bother to identify them. In some instances, where it would not be efficient to employ a person with a given skill to service a single group (e.g., a drama group), economies of scale may come into play when a community center is established to serve a network of the neighborhood centers proposed below.

The second prefatory point is that many of the activities should include significant training components for those involved in both the primary activity and the supporting work. For those already trained to perform their respective functions, existing skills should be preserved and polished.

The third point is that the activities suggested, with very few exceptions, are highly labor intensive, thus generating a high ratio of jobs to expenditures. To put it another way, outlays for equipment and materials per job created would be relatively small.

The list of useful public services that could be provided but are presently lacking probably could be extended far beyond those mentioned in this paper. Those that are mentioned, therefore, should be considered as illustrative. Their recital probably will bring many others to mind.

SERVICES FOR THE ELDERLY

With the disappearance of the extended family, advancing age has become a tragic experience for many with alert and active minds but enfeebled bodies. Many of those facing the threat of terminal exile to nursing homes would be far happier if it were made possible for them to live out their lives, even if alone, in their accustomed surroundings, in their own homes with their own familiar possessions, and, to the extent they are physically able, to keep up their ties with friends, neighbors and relatives. The preference for staying put, for avoiding the trauma of uprooting involved in transfer to a nursing home, is probably strong even when the latter is of high quality. The fact that many nursing homes are abominations is an additional and compelling reason for minimizing the number of such transfers. This would make it easier to enforce standards of humane conditions and treatment in nursing homes and to shut down permanently those institutions unable or unwilling to conform to such standards.

Provision of a few simple and relatively inexpensive services would make it possible for a high proportion of the aged to remain where they are as long as they retain some minimum of physical vitality. The kinds of services required would vary with the physical state of the persons to be served. Some could get by with mobility assistance. If a car or a minibus came by their homes to pick them up once or twice a week, they could be taken in groups to shopping centers to replenish their larders and make other necessary purchases. Group rides could also be provided to take them to recreational activities or events, although, because of differences in tastes, the groups for this purpose might be composed of different combinations of individuals than the shopping groups. In some cases (e.g., where a single medical center serves many of the aged), it should be possible to schedule appointments so as to provide group rides for health care purposes. Where group riding is impractical (e.g., for trips to the individual's own, non-institutional doctor, dentist or lawyer), a special dial-a-ride system could be provided for the aged.

For those whom even a ride would weary unduly (and also as a possible alternative to group riding for shopping purposes), mobile shopping centers could be created. These would take the form of trucks stocked carefully with the kinds of foods and other essentials that the aged buy regularly, with attention paid to ethnic tastes along the routes covered by the trucks. Alternatively, the trucks could carry packages of foods and other items made up in accordance with telephone orders placed, prior to scheduled deadlines, by those along the truck's routes. The routes could be varied day by day so that the same truck could serve several neighborhoods in the course of a week.

Some of the aged who are otherwise able to take care of themselves are too feeble or too lacking in desire for food to cook wholesome, balanced meals for themselves. For these, a central kitchen could prepare warm meals to be delivered to their homes by car or truck. The meals could be packaged so that they could be kept warm on stoves or in ovens until mealtime. Where the nature of the meals permits rewarming without deterioration of nutritive value or taste, several days' meals could be provided at a time, thus minimizing the number of trips required to be made by the delivery vehicle.

Some of the aged who are too enfeebled to clean their dwellings effectively could be provided with housekeeping help. Teams of housekeepers (about which more will be said in connection with services for working parents) could visit their homes or apartments at intervals (perhaps once or twice a week) to clean and straighten up for them.

Aged individuals living alone may encounter two other problems for which assistance could be provided. The first is loneliness. The second is danger of a traumatic event--e.g., a heart attack, a stroke, or a household accident--that might go unnoticed because it prevented them from calling for help. Such persons could be served by teams of individuals organized to telephone elderly persons living alone at frequent intervals to talk with them where loneliness is a problem, and, in any event, to make sure than no mishap has befallen them or, if one has, to send help. The persons making the calls could also routinely inquire whether there were any special shopping or other needs of a kind not likely to be filled by the means suggested above, e.g., to renew a medical prescription and to have it delivered or to make a special trip to the doctor. Arrangements could then be made to fill such needs.

Staffing Needs

The employment created by the above-described services would include jobs for passenger car and truck drivers; clerks to schedule rides and deliveries and to receive and arrange for filling orders for food and other needs; persons to take inventory on and restock the mobile shopping centers; sales clerks to fill orders and to take payment on such mobile centers and other vehicles involved in the delivery of warm meals; cooks and other kitchen workers to prepare such meals; members of the phone-calling teams. In addition, qualified supervisors would be needed to organize the services, to develop systems for their effective integration and coordination (e.g., to avoid several car trips where one would suffice) and to train those engaged in providing the services. For example, those charged with phoning the elderly would have to be carefully trained to carry on "loneliness" phone calls in a friendly and helpful way, to make efficient use of their time by avoiding undue prolongation of such calls, to judge whether a request for special shopping or other help warranted action, etc.

Costs

Given the costs of nursing home care, it seems almost certain that the savings the above-described services would make available by reducing the need for institutionalization would far outweigh the costs of providing the services. Whether or not that conclusion is correct could be determined, subject to a reasonable margin of error, by carefully estimating the cost of the services and comparing them with nursing home charges.

Even in the unlikely event that such calculations show that institutional care is less expensive, provision of the services would still be worthwile as a means of avoiding the immeasurable psychological costs of institutionalization.

The capital costs involved would be minimal. There need be no initial outlay for the cars involved if arrangements are made to compensate the drivers (in addition to their pay) on a reasonable mileage basis for use of their own cars. Relatively few trucks would be needed to serve as mobile shopping centers and for delivery of meals for large numbers of the aged. The ratio of trucks to numbers served would be sharply reduced in high-population-density neighborhoods with heavy concentrations of the elderly. If food and other items were sold by the mobile shopping centers at prevailing retail prices, a revolving fund equal to the cost of the initial inventory might well turn out to permanently sufficient. Such a fund would have to be supplemented only to the extent, if any, that costs of space for warehousing merchandise, truck depreciation, and personnel exceeded the wholesale cost of the initial inventory plus the profit margins included in prevailing retail prices. (Increases in prices at the wholesale level should be compensated for wholly or largely by increases in prevailing retail prices.) The need for supplementation might be avoided if arrangements could be made for direct purchase of some items from the producers. Prepared meals should be supplied at prices equal to either the wholesale costs of food plus preparation costs or the retail prices of the foods involved plus costs for fuel, etc., that would be incurred if the meals were prepared in the home.

Building space would be needed for some of the services--for warehousing merchandise to supply the trucks, for the kitchens used in preparing meals, for the teams of phone-callers, etc. In some cases, however, space might be available without cost in unused or underutilized public facilities. For example, recent sharp decreases in birth rates, plus declining populations in central cities, may make space available in school buildings. /NOTE: What has been said here regarding building space applies to space for certain of the other services described below and will not be repeated in connection with them./

Possible Resistance

Private businesses that perceive certain of the services described above as competitive with their own enterprises would probably resist these programs. Supermarkets and other stores might oppose the mobile shopping centers and the sale of warm meals; taxi owners and drivers might react similarly to the personal mobility services, etc. Such opposition might be diminished somewhat if it were stressed that the market for those services would not be available at all if those served were immured in nursing homes. Private landlords and builders, on the other hand, might welcome the services, and thus help to offset opposition from other quarters, if persuaded that less utilization of nursing homes would increase total demand for dwelling units. With a growing proportion of the population in the upper age brackets, this could be a significant factor in demand for housing.

Prospects for Permanence

We all face the possibility of living to an age at which we will no longer be fully able to take care of our own needs. Many younger people, meanwhile, are already carrying or may soon be compelled to carry the burden of intolerably high nursing home costs for their parents. If experience with the above-described services were to demonstrate, as I am convinced it would, that the shock of institutionalization could be avoided for a significant proportion of the aged, that alone would tend to make permanent maintenance of those services out of tax revenues widely popular. If, in addition, experience should show, as I believe it would, that these services would reduce the private and social costs of caring for the aged, as compared to the costs of institutionalization, it would seem almost certain that there would be widespread and enthusiastic support for the permanent provision of the kinds of services proposed.

SERVICES FOR THE DISABLED

The same range of services proposed for the elderly (plus some additions described below) would be applicable to the temporarily and permanently disabled, although needs for specific services would tend to vary among individuals, depending upon the nature and extent of their respective disabilities.

If a system were established to provide those services for the elderly, it would be a relatively simple matter to include the disabled as part of the client population. Similarly, additional services needed primarily by the disabled, could be extended to those aged persons who have disabilities that qualify them for such services.

The disabled, in some cases, would need visiting nurses, registered or practical or both. In addition, some who live alone would need daily visits by someone able to prepare meals and perform other household chores, rather than the weekly or twice-a-week visits of housekeeper teams proposed for the elderly.

The lives of the blind could be enriched by the services of people who would direct them to facilities where they could learn braille, obtain "talking books," learn to become mobile with the aid of leader dogs, etc. Delivery of braille literature and talking books could be provided for the immobile blind. Similar referral services could be provided for the deaf.

Prospects for Permanence

The visiting services for the disabled described above probably would be less expensive than institutional care. Once these lower costs had been demonstrated, it might be possible to obtain permanent public financing for such activities. The special services proposed for the blind and the deaf might be financed on a permanent basis by the private, voluntary organizations that already meet many of their needs, out of public revenues or by a combination of both.

SERVICES FOR WORKING PARENTS

The need for certain services for working mothers, whether or not they are heads of households, is widely recognized, though far from adequately met. A widowed, separated, or divorced father responsible for maintaining a home and caring for young children has the same needs for help as a working mother. Some of these services are also needed in families in which all the adults work or attend full-time school.

The need for a vast expansion of high-quality and low-cost child care facilities ("Day care" is a misnomer because, in many cases, provision must be made for children before dawn and after dusk and, in some situations, around the clock.) is too obvious to require discussion here. A very sizable number of permanent jobs would be created by such an expansion both for well-trained child care experts and for aides who could operate under their supervision with little or no training. However, the latter could be given opportunities for training that could lead to upgrading. In fact, if both quality standards and quantitative needs are to be met within a reasonable time, there would be vast opportunities for upgrading.

Because of the traditional mores of our society, the working mother, even if her husband is present in the home, usually bears an unfair and intolerably heavy burden. She is expected, besides putting in her stint on the job, to spend many additional hours doing the family's shopping, attending to her children's and her husband's needs, keeping the home clean and neat, etc. For many women, the combination of job and home responsibilities acts as a strong deterrent to labor force participation. In a full employment economy (which hopefully we will some day have), their absence from the labor market would mean a serious loss of potential output.

Under present conditions, the hiring of household help is not a realistic possibility for most women discouraged from taking jobs by the burden of their family responsibilities. The low pay and low status attached to such work and the fact that it is often done under degrading conditions tends to limit the supply of persons willing to undertake it except in times of severe recession.

There would almost certainly be a net gain to society if paid household work were rationalized, thus making it more efficient; if the workers involved were given steady employment under dignified conditions; and if the wages were sufficiently high so that the combination of monetary renumeration and improved dignity and status would attract more workers into the field. The gain would flow from two sources: on the one hand, useful services would be obtained from persons who would otherwise have to be supported in idleness; on the other hand, the ready availability of such services would encourage increased participation of women in the labor force, thus increasing total output.

The ways in which household work might be rationalized can probably be determined only by experimentation with various methods. What follows, therefore, does not pretend to be a definitive solution, but rather one approach that might be worth testing.

The household workers could be organized into teams consisting, for example, of one person who would do such chores as sweeping, dusting, mopping, etc., another who would do the laundry, make the beds, change the bed linen periodically, and generally straighten up; a third could do the dishes and, in accordance with written instructions left by the homemaker, prepare a simple evening meal (elaborate, time-consuming recipes would have to be ruled out) and put it on the stove ready for cooking. (If the stove had a timer, it could be set to have the meal cooked at the desired time.) In addition, one member of the team could pick up a shopping list left by the housewife and deposit it at a central location from where it would be taken, together with similar orders from other families to be filled at the appropriate store or stores. (Discount arrangements might become available based upon the volume of sales involved.) The team would deliver the orders as it arrived at the homes. (I have left open the frequency of the teams' visits to each home they would serve; it might be weekly or twice a week.)

The team members would have steady employment, regular assignments, and the same supervisors from week to week--unlike present domestic dayworkers, whose employment is irregular and uncertain and may involve a large number of constantly-changing and unfamiliar employers and homes. Their roles would become much like those of field workers for a regular business establishment (e.g., workers who install and repair telephones or household appliances), except that they would have regular routes. It seems reasonable to expect that, in time, they would be accorded a status in the eyes of their neighbors comparable to such workers.

Initially, and particularly while unemployment remains high, the household help services should be made available without charge to all families with children in which all the able-bodied adults work or attend school full-time. This would permit the operation to be conducted on a scale which would make meaningful experimentation possible. The net cost would be relatively small, since most of the workers involved would otherwise be receiving unemployment compensation or some other form of income maintenance. Later, and particularly if unemployment were sharply reduced so that there were competing demands for the workers involved, further experimentation might be conducted to determine the size of the fees that typical families might be willing to pay for these services. Fees might be graduated on the basis of family income.

NEIGHBORHOOD CENTERS

We seem, as a people, to be becoming increasingly isolated from each other. Neighborhoods, in the sense of areas in which individuals come into repeated contact with large numbers of their fellows and join together in a variety of activities, have largely disappeared. The reasons need not be explored here, but the results seem to include widespread loneliness and a feeling by many people that something is missing from their lives

Whether or not the sense of neighborliness can be deliberately recreated is open to question But it is worth trying.

One possibility might be the establishment of neighborhood centers which would draw people to them for a wide variety of purposes--educational, cultural, recreational, and for various kinds of services and counselling--while at the same time providing them with facilities and outlets for their hobbies, interests, and talents. There seems to be no good reason why people should be required to go off in different directions for each of these separate purposes, encountering different individuals in each locale and establishing genuine personal ties with none of them.

For present purposes it is not necessary to blueprint the nature of such centers down to the last detail. What is needed first is adequate and strategically-located building space. Preferably, it should be near a shopping center or other facility that draws large numbers of neighborhood people to it for other purposes. (This factor could be ignored in a high-population-density urban neighborhood.) It might be possible to find the needed space in an unused or under-utilized public building.

Ideally, a variety of government facilities that serve large numbers of the neighborhood's residents should be housed in the same building or in adjacent or near-by buildings. This could include, for example, the post-office and the unemployment compensation, employment service, welfare and food stamp offices. Perhaps, if the neighborhood centers concept takes hold, public buildings in the future will be designed to house under one roof all facilities serving the public in the neighborhood, while providing space for the centers. If, as suggested below, the center included counselling and referral services, time and travel for the local residents would be minimized by having relevant government offices in the same building.

The space, obviously, should be large enough to house the full range of activities that are contemplated for the center and should be suitable for adaptation to them. Those activities should be designed to appeal to people of all ages, races and classes in the neighborhood to be served. If possible, there should be adjacent outdoor space in which children--and possibly adults as well--could engage in outdoor games and sports.

The members of the staff responsible for conducting each of the activities should be drawn from among the unemployed. They need not in all cases be professionals in their respective fields--although professionals should by no means be excluded. They could be hobbyists, provided they are knowledgeable, reasonably skilled, and able to communicate their knowledge and skills to others. The centers' regular staffs could be augmented by teachers from community colleges who could conduct regular classes on the centers' premises in any subject in demand by a sufficiently large number of those in the neighborhood. (It would be understood that payments made by all the centers in the community for the services of such teachers would be pooled by the college to add qualified unemployed teachers to its staff.) In cases where no single center could make full time use of a staff member, his or h[illegible] services could be shared by several centers in the same comm[illegible] and he or she might also be employed by (or operate out of) a com[illegible] center of the type to be described below. In other cases, the staff member might be paid on an hourly basis for time actually worked.

Before the staff is hired, the neighborhood should be circularized and canvassed to determine the kinds of activities in which there might be substantial interest. On the basis of the canvass, the staff to be recruited from among the unemployed might include persons able to teach English to foreign residents; to teach foreign languages; to lead a band, a chorus, a dance group or a theatrical group; to teach creative writing, drawing, painting, printmaking, sculpture, textile dyeing and printing, photography, woodworking, dressmaking, and other arts and crafts; to run a movie projector for the showing of films that could be obtained free or inexpensively; to direct athletic activities or calisthenics, etc. 2/ The range of possibilities is almost endless.

The neighborhood center should also, to the maximum extent possible, be the focal point for a variety of public and private services used by the neighborhood's residents. Unless and until the centers are housed, as suggested above, in the same building with a variety of government offices serving the public, the same purposes might be accomplished in part by other means. For example, the center might include the equivalent of the kind of small-town limited service post-office that often occupies a corner of a store and is operated by the manager or the owner of the store as an auxiliary function (e.g., a member of the center's staff primarily responsible for other duties could handle requests for postal services as they were made). Similarly, the unemployment compensation, employment service, food stamp, welfare offices, etc. could, if there were sufficient need, assign members of their respective staffs to work in the centers. Alternatively, some members of the center's staff having other duties could be trained to serve part-time as agents of such offices. In that case, they should receive an appropriate part of their pay from the agencies involved.

If the nature of the facilities makes it feasible, the neighborhood child care center could also be located on the premises of the center. In addition, private voluntary organizations of various types might find it useful and should be encouraged to assign members of their respective staffs to work part- or full-time in the centers.

It should be obvious that, aside from convenience to the neighborhood's residents, a major purpose of having services available at the center is to attract people to it, thus enabling them to familiarize themselves with the activities it provides, with a view to involving them in such activities.

2/ If there is a heavy concentration of a particular ethnic group in the neighborhood, it would be well (particularly if there are to be musical, choral, dance or dramatic activities) to seek out staff members to lead those activities who are familiar with the culture of the ethnic homeland.

Toward the same end, the center should also be open for use as the local meeting place of social, fraternal and other organizations to which the neighborhood's residents may belong. Similarly, space should be made available for ad hoc recreational activities such as bridge, chess and checker games, etc.

In a[illegible], the neighborhood should be informed at frequent intervals [illegible]ps weekly) of activities at the center. This could be done through posters, circulars, the local newspapers, radio, TV, etc. The residents should be invited to attend plays, musical events, sports events, [illegible]ts and crafts exhibits, etc., generated by their neighbors throu[illegible] use of the center's facilities.

Each center should include on its staff at least one person able to provide counselling and referral service to persons requiring assistance with personal and family problems. If the neighborhood is one in which large numbers of persons are more fluent in a foreign language than in English, the counsellor should be able to speak that language. The counsellor should be recruited from among the unemployed and, if no trained person is available, should be given the necessary training.

Some activities originating at the center would not be conducted on its premises. For example, the people participating in the center's activities might decide to beautify the neighborhood. (This is one type of activity that might be pursued through neighborhood organization for self-help discussed below.) Groups might be organized to plant trees along certain streets. Other groups, working under the direction of artists, might decide to decorate the neighborhood school or to paint murals on the blank walls of neighborhood buildings. A band organized in the neighborhood center might agree to play music in the neighborhood park on summer evenings. Here again, a wide variety of projects could be initiated by people participating in the center's activities.

The neighborhood centers would serve also as focal points for neighborhood self-help organizations, to be discussed below.

It seems likely that some subsidy might be required in addition to any fees that could reasonably be charged. (This is also true of public child care centers.) But the social gains, indicated above, could well offset the cost of the subsidies. In that case, the public might decide to make the service available on a permanent basis even after unemployment had receded substantially.

Retiree Centers

Retiree centers providing essentially the same range of activities and services proposed above for the neighborhood centers have proven their value and, in many cases, have been successful in attracting large numbers of older persons.

Questions can be raised, however, about the desirability for either group of isolating the elderly from younger persons. Moreover, economies of scale would make it possible to provide a wider range of activities and services for both groups if the retiree centers operated as part of the neighborhood centers. Some activities and services at each neighborhood center should be designed specifically for the retirees (e.g., pre-retirement counselling and assistance with Social Security and Medicare problems), but the latter should have the fullest practicable access to services available at the centers.

In addition, the centers could serve as the focal points for the special services for the elderly proposed above.

Prospects for Permanence

The establishment of neighborhood centers should not, in my opinion, be visualized as a temporary program designed solely to provide work for the unemployed. Under present conditions, initial recruitment of staff for the centers should be focused on the unemployed--but the centers, if they prove as valuable and successful as I expect, would undoubtedly create a demand for their continuance. The amount of tax revenues required to support them would be relatively small. To some extent, the centers would involve, not additional expenditures, but a reorganization of recreational and cultural activities and certain types of services already supported by public funds. In addition, in neighborhoods where unemployment is especially severe, the centers' staff requirements for daytime activities would diminish as unemployment abates.

COMMUNITY ARTS CENTER

The arts and crafts activities proposed above for the neighborhood centers are intended to enable people to pursue their interests and improve their skills, as well as to generate local recreational events, regardless of the level of talent of the individuals participating.

Every community has its quota of genuinely talented unemployed and underemployed artists in a variety of fields. Initially, the latter group should be employed, as WPA employed them, to put their talents to public use. Later, the same approach can be used to employ those whose talent is discovered and developed in the neighborhood centers.

Communities of sufficient size could accommodate a community arts center embracing the full range of arts and crafts for which capable jobless persons are available. They should be employed primarily to apply their skills--to stage plays and ~~musical~~ events, to decorate public buildings, to do creative writing--and should be provided space and facilities (e.g., presently-closed movie house to serve as theaters) and equipment to practice their art. In addition, however, they could be drawn on, part time, to serve the neighborhood centers.

The community arts center should also arrange for interchange of theatrical and similar events and arts and crafts exhibits among the neighborhood centers within the community (e.g., a play staged by neighborhood center A could be routed to centers B, C and D).

Such interchanges would be particularly valuable in communities where separate neighborhoods have different racial and ethnic characteristics. Ethnic pride deserves encouragement but the cultivation of respect for other cultures is at least equally important. To the extent that there is a distinctively American culture, it consists in large part of a conglomeration of features drawn from the separate cultures represented among our people. The further development and enrichment of American culture would be stimulated by the kinds of interchanges proposed.

The community arts center should also be charged with the responsibility for identifying particularly talented individuals and groups emerging in the neighborhood centers. It could encourage their development and make their talents available to a wider audience by arranging community-wide events and exhibits at which such individuals could perform or display and, in some cases sell, their work. This could be done through community-wide contests judged by panels of experts, but it also could be done less formally.

The separate community arts centers could be tied into State, regional and national networks as proposed below.

As in the case of the neighborhood centers, I visualize the community arts centers, not as temporary expedients to help sop up unemployment, but as permanent features of our society. To achieve that status, of course, they would have to demonstrate their value.

COMMUNITY ORGANIZATIONS

The existence of neighborhood centers would facilitiate, (in fact might lead to) spontaneous generation of organizations of neighbors to deal with their common problems. Such organization could be directed toward an almost endless variety of purposes. One such purpose, neighborhood beautification, has already been mentioned. Other possibilities include creation of joint buying groups (e.g., to purchase produce directly from farmers) and even cooperative stores, formation of a neighborhood credit union, lobbying to bring the needs of the neighborhood (from a new traffic light to a new school building) forcefully to the attention of the local authorities, volunteer working groups to rehabilitate deteriorating homes and other buildings in the neighborhood, groups to visit and provide needed help to sick neighbors, joint travel groups to obtain cut rate fares, etc. However small or ambitious the project, it would contribute to some degree to restoring the concept of neighborliness, with all its connotations of mutual help and interlocking networks of friends.

Training Community Organizers and Others

While self-help groups might spring from the initiative of people participating in the neighborhood centers' activities, imaginative and able community organizers could help to bring larger numbers of such groups into being, covering a wider range of activities, and could help them become more effective in achieving their ends.

Moreover, management of the centers themselves will require many of the skills of well-trained community organizers. Either the manager of each neighborhood center should be a trained or experienced community organizer or the center should have such an organizer as a member of its staff.

The basic capabilities and personal qualities that make for effective community organizers are undoubtedly latent in many of the unemployed. Demand for greatly increased numbers of community organizers would be created by a decision to establish a national network of neighborhood centers and community arts centers.

Thus, a need would arise for training centers to develop community organizers. In time, the need would probably also arise to train community organizers in certain specializations. For example, a significant number of neighborhood centers might want to develop cooperatives stores or credit unions. The chances for their ventures to succeed would be greatly enhanced if they started on a sound footing, based upon expert advice given them by persons equipped with specialized knowledge in those fields. A combination of such knowledge with the skills of a community organizer would increase the likelihood that the advice given would be heeded.

Since demand for the services of specialists in any one community is likely to be limited, they would have to operate out of and be routed by the State, regional or national bodies proposed below.

STATE, REGIONAL AND
NATIONAL ORGANIZATIONS

Each neighborhood center and community arts center should be able to profit from the experience of others, but since there is very little experience to build on thus far, the centers would have to feel their way and mistakes undoubtedly would be made. Mistakes could be minimized, however, if the centers were linked in mutually supporting and reinforcing networks. The networks could be established at the State, national and regional levels, each with its own headquarters.

The headquarters would serve, among other things, as clearinghouses for exchanges of experiences. They could hold periodic, carefully-prepared conferences of the leaders of the neighborhood and community arts centers, they could issue publications, and they could respond to inquiries and requests for specialized or other assistance addressed to them by the neighborhood and community centers. They could also reinforce the efforts of the community arts centers to encourage the development of talent by routing outstanding local performers and arts and crafts exhibits within their respective jurisdictions.

Potential Problems

A number of practical problems are certain to be raised in connection with the foregoing proposals. All of them cannot be anticipated, but a few of the foreseeable ones are discussed below.

WAGE RATES

In view of the widespread tendency to view the victims of unemployment as in some way responsible for their own plight, it probably will be urged that unemployed persons hired to perform the functions outlined above should be paid less than prevailing wage rates 3/ for the work they would be called upon to do. In further support of that position, the argument would be advanced that wage rates below the prevailing level would provide an "incentive" for the individuals involved to take private employment.

That position makes neither moral nor practical sense. To pay anyone less than the established value of the work done is to cheat the employee. The government has no more right to do that than any private employer and the government, in addition, has an obligation, which it has acknowledged in a number of ways, to encourage and maintain fair labor standards rather than to undermine them.

Moreover, there is no inherent superiority of private over public employment. Therefore, why try to drive people from the latter to the former? To do so would be particularly senseless in the case of the activities proposed because it is intended, assuming they prove

3/ It should be understood that the phrases "prevail[illegible] age rates" and "prevailing wages," as used here, are intended t[illegible] er the range and levels of fringe benefits usually provided a[illegible] as wage rates as such.

valuable, to continue them on a permanent basis. Payment of less than prevailing wages would cause disruptive turnover of personnel, thus undermining the efficiency of the programs and lessening their possibilities for success. Experiments to determine whether the programs should be continued would therefore be inconclusive because, if and when they failed, it would be impossible to say whether failure was due to turnover (which would be most likely to involve the departure of the personnel with the greatest capabilities) or to the inherent defects of the programs.

Payment of prevailing wage rates would also minimize the danger of conflict with unions representing workers engaged in work similar to the types proposed. Avoidance of such conflict would be important to ensure the widest possible public acceptance and support for the proposed programs. In the case of the neighborhood centers, many of whose clients would be drawn from unionized occupational and income groups, conflicts with unions could be particularly damaging to efforts to gain maximum participation in the center's activities.

AUXILIARY SERVICES

To the maximum extent possible, all work arising out the proposed programs should be performed by unemployed persons hired for that purpose. This would include, for example alterations to and decorating of the premises to be used for the neighborhood centers. Here, too, conflict with unions could arise which should be avoided if possible. Generally, unions will tend to be sympathetic to programs intended to employ those without jobs; however, there could be problems in exceptional cases which might be eased if approaches were made in advance to the top national echelons of the unions, where a broader view is more likely to be taken. Special arrangements might be made in some cases to treat the workers actually performing the work (assuming that all or most are relatively unskilled and are doing the work under the supervision of an experienced person, who might well be a union member) as apprentices under the appropriate union's apprenticeship program. This would have the additional value of increasing their employment opportunities if and when they leave the programs.

In some cases, work may have to be contracted out to private employers to smooth relations with the unions, as well as for other reasons, it would be desirable to contract for such work with unionized firms.

CRITERIA FOR EMPLOYMENT

Until a definite decision has been made to maintain any of the programs on a permanent basis, one of their prime purposes should be to provide work for the unemployed. To the maximum extent possible, therefore, all such jobs, including administrative and supervisory positions, should be filled from among the unemployed. Ability to do the work involved, of course, must be a criterion applied to all jobs, but it need not be and should not be present ability. Where there is sound reason to believe that an individual has the potential to do the work after a reasonable training period, the training should be provided and he or she should be paid (or unemployment compensation should be supplemented, State law permitting) while training is underway. In addition, and particularly in the case of the neighborhood centers, efforts should be made to recruit from the area to be served. This would create personal ties to the centers among people (relatives and friends of the person hired) whom it is desired to attract to them.

UPGRADING

All possible jobs programs should put heavy emphasis on promotion from within. To this end, opportunities for training for more skilled and better paying jobs should be provided for all staff members in the lower echelons and they should be encouraged to take advantage of them. The training should be done, to the extent practicable, by unemployed persons hired for that purpose. Where that is not possible, cooperation of the local school system, including the community colleges, should be sought. The budgets of the programs should include reasonable amounts to cover training fees in cases where outside facilities must be used for training.

CAN GOVERNMENT GUARANTEE FULL EMPLOYMENT?
(By Emerson P. Schmidt[1])

INTRODUCTION

The depression of the 30's and the resulting unemployment raised questions as to the possibility of eliminating or alleviating such periods through action by private business, or by government, or through the cooperation of both. Many people have assumed, because the war produced full employment, that government could provide means for eliminating unemployment in peace time. Such thinking overlooks the fact that war justifies the overriding of the rights of individuals and that so-called "war prosperity" is the result of borrowing money which must be repaid out of future income from trade, manufacturing and ser... Consideration given to the depression in the 30's and full employment resulting from the war has tended to popularize the views of those who would subordinate the liberties of individuals in order to achieve a high level of employment through a planned economy under government auspices.

It is time that those who have to make the decisions as to legislation and those who would have to bear the burden recognize the dangers in a planned economy such as is contemplated under legislation now advocated in Great Britian and the United States.

Rather than attempting to maintain a high standard of living and a high level of employment through government planning and direction, we should encourage the building of a strong internal economy based on individual freedom in this country. In addition to providing for our own well-being, this is desirable because of the impact of conditions in this country on the rest of the world.

From a longer-term standpoint, the hope for enduring world peace which is uppermost in the minds of everyone today must rest on the cooperation of strong nations, made up of independent-thinking, free citizens living in a free economy, believing in their own institutions, and willing, if necessary, to oppose attempts to achieve peace, prosperity and happiness on a permanent basis through economic war or conquest.

This Bulletin, which is the work of Dr. Emerson P. Schmidt, Director of the Chamber's Economic Research Department, is designed to shed some new light on the instruments, devices and power

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Reproduced from: U.S. Congress. House. Should the Federal government implement a program which guarantees employment opportunities for all U.S. citizens in the labor force? House document 95-328, 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 5-18.

which a national government must employ if it is to guarantee full employment. If we desire to attain this end or goal through government guarantees, are we prepared to employ the necessary means?

J. CAMERON THOMPSON, *Chairman*,
Committee on Economic Policy.

MARCH, 1945.

CAN GOVERNMENT GUARANTEE FULL EMPLOYMENT?

The long depression of the 1930's, followed by the intense economic activity during the war, has turned the mind of man everywhere to the problem of overcoming depressions and maintaining high levels of employment. There is so much agreement on the desirability of these objectives that further discussion of their merits can serve little purpose.

A dictatorship—fascist, socialist or communist—controlling prices, wages and workers, can secure and maintain full employment so long as its power endures. Whether a free society can shoulder upon government a responsibility for sustained full employment and yet remain a free society certainly remains to be demonstrated. We have no historical evidence that it can.

Yet, political pressure is forcing many free societies to make the effort to guarantee full employment. This Bulletin is concerned with three "full employment" plans, two public and one private, as follows:

1. Employment Policy—Ministry of Reconstruction, England, 1944.
2. Full Employment in a Free Society—Sir William Beveridge, 1944.
3. Senator Murray's Full Employment Bill, S. 380, 79th Congress, 1945.

Each of these documents develops a government-sponsored program. After describing each briefly we shall turn to an analysis of their political implications.

I. EMPLOYMENT POLICY

The opening sentence of the official British White Paper (Cmd. 6527) on EMPLOYMENT POLICY states: "The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war."

The blueprint for accomplishing this objective has many facets, only the most important of which will be discussed. The White Paper (and the other two documents) are based on the view that otal-expenditures must be maintained. These expenditures (ignoringt foreign trade balance) fall into four groups:

1. Private consumption expenditures.
2. Public expenditure on current services.
3. Private investment expenditures.
4. Public investment expenditures (public works and enterprises).

Since the instability of consumption expenditures are said to be largely a result of *investment* instability, most of the effort is to be made to stabilize total investment. But how?

First, under the British Government plan the whole system of public works, from those carried on by the smallest rural or urban unit to those under the control of parliament, is to be coordinated. All government units will be required to estimate annually their public works requirements for the next five years. Yearly the central government will set a "target" of public works for the whole economy with the size depending on the *estimates* of *probable* unemployment. The plan is to be controlled centrally through loan sanctions and grants-in-aid. This same plan is to be applied to the public utilities.

Second, private investment is to be encouraged at the onset of depressions, through two devices: (1) lowering the interest rates for borrowed capital, which rates presumably are increased during previous periods of business booms; (2) well established business concerns, with a strong financial position and reasonably assured of future expansion, are to be encouraged to adopt consciously a contra-cyclical policy of plant expansion at the onset of depressions. These businesses can be convinced, it is argued, that plant expansion and renovation in a depression period is less costly, and that they must assume a social responsibility to help the government prevent unemployment.

Obviously, this contra-cyclical public works program and the suggestion that private enterprise expand plant in depressions are not new. In 1931 the United States government adopted a somewhat similar public works program (on paper) and President Hoover did his best to stimulate private investment in 1930–32. It is necessary to mention this difference: The British now seem ready to develop and implement an over-all contra-cyclical program of public and private works; the pattern has been laid and the central government is prepared to take all necessary steps (although Parliament has not acted as yet).

Third during impending depression, social security and possibly other tax rates are to be drastically reduced in order to leave in the hands of the employed population a larger sum for immediate expenditure. Since, after the war, a very large portion of the total national income will filter through public treasuries, it is believed that such a program of relaxing tax collections during bad times will help sustain employment and purchases. This is deliberate planning to enlarge the deficit in the government's accounts.

Fourth, the government, during threatening depression, will purchase heavily for its own needs, stock piling the surplus to be used up during subsequent periods when private demand again is brisk. The report cautiously urges the exploration of the idea of government buying ordinary commodities during slack periods and reselling them for ordinary private consumption when prosperity returns.

The foregoing is the heart of the official policy of the present British government. Many devices and instruments are to be forged for carrying out this program. Labor mobility is to be improved through the employment exchanges, retraining programs, and positive efforts to move people from areas and industries of low opportunity to ones where openings are in more abundance. Closely tied to this program is a program of "controlled industry location." New plants, including extensions of old ones, will require government approval. Special financial and other incentives will be used to locate productive facilities in accordance with the government plan.

Because of the importance of *advance* knowledge, in regard both to public and private plans on the one hand, and in regard to prospective levels of economic activity on the other hand, a special effort will be made to secure much more detailed statistical materials of current and pending plans than was true in the pre-war period. The following are the principal classes of new information to be collected regularly:

1. Statistics of employment and unemployment, including quarterly or monthly statements of present and *prospective* employment in the main industries and areas in the country, based on returns from employers.

2. Regular information relating to savings and *projected* capital expenditure by public authorities, and, as far as possible, by private industry.

3. An annual census of production showing the structure of the main groups of industries in the preceding year, including, *inter alia*, details of the quantity and value of output, stocks and *work in progress*.

4. Monthly figures of production, consumption and stocks, and, if possible, figures of *orders on hand*, based on sample returns obtained periodically throughout the year from large firms, trade associations, and public institutions.

5. Annual and quarterly estimates of foreign capital movements and balance of foreign payments.

The emphasis, it should be noted, is on *prospective* behavior as indicated by the words and phrases which we have italicized.

Thus the White Paper, in effect, states that if the government is to assume responsibility for jobs through central planning, many private decisions must give way to public decisions, the central government must have the authority, power and weapons to implement that responsibility. Unfortunately, the White Paper does not discuss the problem of maintaining freedom under such a policy; but it does recognize that if people do not cooperate with the government plan, the plan must break down.

II. Murray Full Employment Bill

This bill, introduced in the U.S. Senate in Janurav, 1945, states: All Americans able to work and seeking work have the right to useful . . . employment . . . and it is the policy of the United States to assure the existence at all times of sufficient employment opportunities to enable all Americans . . . to exercise this right.

Under the bill, the federal government assumes responsibility to pursue policies which will encourage the highest level of employment through private and other nonfederal investment and expenditures and, only when this fails to absorb the total labor supply, will it resort to federal expenditure to complete the task.

At the beginning of each regular session the President shall transmit to Congress a National Production and Employment Budget which sets forth:

1. The size of the labor force

2. The estimated volume of investment and consumption expenditure by both private and public authority necessary to absorb the total labor force

3. The estimated deficiency in No. 2 above.

When a prospective deficiency looms over the horizon, the President is, first, to set forth in this annual special Budget a program for encouraging nonfederal expenditure. Then he must make up his mind as to what effect these stimuli to nonfederal expenditure will have, and if he concludes that a deficiency remains he is to make recommendations to Congress for supplementary federal expenditures. Evidently this will require a somewhat higher order of economic insight into the economic process than we have ordinarily expected from our Presidents or their advisers.

The foregoing task of estimating may look simple and feasible, until we try to envisage what it means. Obviously, for the President to make such an estimate would require the same type of detailed figures, forecasts and guesses, for which the British White Paper called. (See page 6, above.) For a country as large and varied as the United States, the acquisition of the investment and consumption expenditure plans of our 3 million business units, our 6 million farmers, our 135 million people and 165,000 government units, would be a prodigious, indeed an impossible, task.

Yet the success of this program would be dependent, in part, upon a reasonably accurate estimate. Furthermore, unless the government acted promptly on the deficiency indicated, we might be in the midst of a depression before the program got under way. It is only necessary to remind ourselves, for example, that in January, 1937, when Congress convened all the business curves were rising. By the middle of that year, employment and production were on the skids. Could the architects of the National Production and Employment Budget have foreseen in time this cataclysmic decline? The notion that major future economic events in a free society can be forecast is a pure delusion. In fact, if on the basis of a given set of facts an accurate forecast could be made, the people's compensatory and other reactions to the forecast will themselves upset the forecast.

This point is mentioned only because nearly all the spokesmen of government-created full employment are finally driven to the conclusion that such a program calls for a very wide discretion of administrative authority; in other words, such a full employment program cannot wait on Congressional action: committee hearings, introduction of bills or the making of appropriations. All this is too slow: the administrator must always have his finger on the trigger and must be ready to squirt additional purchasing power into the system whenever he sees (or feels) the danger signals hovering over the horizon. Congress would have to exercise great self-denial, would have to recede into the background and let the administration assume authority. It is safe to predict that if we adopt this program Congress will be asked only to set the "broad outlines" and then let the administration run it. Whether this will be different from the parliamentary declines which we have witnessed in Europe prior to complete dictatorship remains to be seen. But we surely would be on our way.

III. THE BEVERIDGE FULL EMPLOYMENT PROGRAM

Beveridge Plan[1] goes all the way. In comparison, the British Paper and the Murray bill are effete, temperate, halting and ·tual. Beveridge does not bother to pay lip service to private ›rise (although he finds a small corner for it, for the time being). market mechanisms, private ownership of the instruments of ›ction and even complete free consumer choice are institutions ›erties which the people can well forego. The government can do tter and, whenever the private plans stand in the way of public ›, the former must give way.

e are greatly in debt to Sir William for his utter frankness and his ng us through to the bitter end. Beveridge will go down in history ne man who believed that we can destroy the free and open market he majority of economic transactions without destroying personal l political liberty.[2]

As recently as 1930, after nearly a lifetime of study, Sir William s inclined to attribute unemployment, except the frictional type, excessively high wages—labor overpricing its services (pp. 92-3). ›t "A new era of economic theorizing about employment and unemployment was inaugurated by the publication in 1936 of the General Theory of Employment, Interest, and Money, by John Maynard Keynes."[3] Beveridge tells us that the gist of the new revelation contained in this book is:

> Employment depends on spending, which is of two kinds—for consumption and investment; what people spend on consumption gives employment. What they save, i.e., do not spend on consumption, gives employment only if it is invested . . . in capital equipment, such as factories, machinery, or ships, or in increasing stocks of raw materials (p. 93).

Entirely apart from the fact that the above statement is somewhat inaccurate and incomplete, it seems incredible that Beveridge should find this a new revelation or a new insight, when, as a matter of fact, comparable fundamentals have been the teaching of economics from the beginning. It was implicit and explicit in Adam Smith (1776), Ricardo (1823), Mill (1848), and the whole school of economists down to the pre-Keynes days. In fact, it is simple arithmetic, common sense, and not abstruse economics or a new revelation. Keynes' contribution lay in his particular diagnosis of the reasons for the failure of the alleged self-corrective forces to bring about an equilibrium at capacity output and move the idle savings back into the income stream. Further, Keynes proposed a series of measures to remedy the troubles, many of which do not differ in essentials from the program which Beveridge outlines

The diagnosis of our maladies is now alleged to be complete; the remedy is obvious: The government must move idle savings back into the income stream by taxation and borrowing, and must create additional purchasing power whenever a gap appears. Incidentally, this will give the government a fine opportunity, Beveridge notes, to determine expenditures according to "social priorities"—that is, to determine what is best for the consumer! (p. 31).

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[1] Not to be confused with Beveridge's earlier report, Social Insurance and Allied Services, 1942.

[2] That this is not likely has been shown in: Freedom and the Free Market Inseparable, Chamber of Commerce of USA, 1944.

[3] See Bulletin No. 8, Post-War Readjustments series, for a critique of Keynes, Deficit Spending and Private Enterprise.

What is Full Employment? Beveridge defines "full employment" as "having always more vacant jobs than unemployed men, not slightly fewer jobs . . . the labor market should always be a seller's market rather than a buyer's market." Again,

> A full employment policy worthy of the name cannot limit itself to curbing the boom slightly and slightly mitigating depression. Its aim is the abolition of booms and slumps and the maintenance of a level of employment hitherto not even attained during booms (pp. 18 and 184).

Whether such a feverish pitch of sustained economic activity is consistent with the maintenance of sanity, health and the necessary flexibility of society does not seem to worry Sir William. Evidently queues, shortages, delays and congestion are to continue from war to post-war.

He recognizes that some short-run, frictional, between-jobs unemployment is inevitable even under this definition, but very soon "one will be wanted in one's old job again or will be wanted in a new job." [4]

He recognizes that such a situation of full employment is always explosive, with inflation threatening, but he asks labor to be reasonable. "Wages ought to be determined by reason, not by the methods of strike and lockout." The freedom to strike is generally not one of the freedoms enjoyed by workers when the government assumes responsibility for jobs for all. The power of coercion must not be diffused but must be concentrated in one hand, that of the government.

The Supreme Instrument. As in the Murray bill, so in the Beveridge plan, the supreme instrument for implementing full employment is a new type of National Budget, under which the labor force is counted and then this figure becomes the starting point in the planning; next, the Minister of National Finance, after estimating the total private expenditures on investment and consumption and presumably ordinary government expenditures, must budget for additional public expenditure (Beveridge prefers the word "outlay") sufficient to absorb any remaining unemployed.

This budget [5] will be composed of six items:

1. Private consumption expenditures.
2. Private investment expenditures in the home islands.
3. Balance of payments abroad.
4. Proposed public expenditures covered by taxes or other revenue.
5. Proposed public expenditures covered by borrowing.
6. Output capacity (full employment) of the whole society.

The last item, number 6, is the starting point, the objective. Numbers 1–3 must largely be taken for granted as given, at least in the short run. The variables to be manipulated by the government will be numbers 4 and 5. Beveridge is not directly concerned with increasing numbers 1 and 2 whereas the Murray bill, as we have seen, requires the government first, or simultaneously, to try to stimulate private activity before greater governmental expenditures are to be considered.

The primary and compelling duty of the British Ministry of National Finance is to assure each year that the total expenditures in the

[4] In 1944, a year of terrific manpower shortages and overemployment, more than one million Americans applied for unemployment compensation. On the average day some 80,000 persons collected benefits and the average duration of benefit payments was nearly 8 weeks.

[5] A later Bulletin will analyze the difficulties of this type of "budget-making."

private and the public sectors of the economy are sufficient to employ the whole labor force.

Beveridge would establish a long series of boards, bureaus, ministries, and other agencies to carry out the program. To his credit we must state that he has elaborated the details to a considerable degree. Each piece is fitted into the total scheme—but he wisely keeps warning the reader that everyone must coöperate and that the government cannot tolerate interference. How he reconciles this prodding with the liberties which he postulates is not clear from the book.

IV. The Politics of Guaranteed Full Employment

That Government can create and guarantee full employment is almost universally admitted. The thousands of slave states throughout history and the recent experiments in Europe confirm this. Whether such guaranteed employment is consistent with the modern conception of man as an individual human being, with rights of self-determination, freedom of mind, spirit and body—that is a question. Certainly, experience suggests that, so far, such guaranteed full employment can be secured only through totalitarian methods and control.

Since Sir William discusses this matter at length, let us note what he has to say.

Continuity of Policy: Beveridge recognizes that a government full employment program dare not be upset by frequent changes of direction, by pressure groups or shifts, due to changes in exports. He says,

> There must be reasonable continuity of economic policy in spite of changes [due to free elections]. The machinery of government, while responsive to general changes of opinion, must be resistant to "lobbies"—that is to say, organized sectional pressures (p. 22). . . . None of these freedoms can be exercised irresponsibly. Perpetual instability of economic and social policy would make full employment and any other social reforms futile or impossible (p. 23).

Private capitalism requires similar continuity and stability—but it has not had it in recent years; and, what is at least equally important, while it has existed the people have retained their political freedom. Two further comments are relevant to the foregoing: (1) How can such essential continuity of economic policy be assured if elections are free? Will not the "guaranteed full employment" party in power and responsible for implementing that guarantee, find it necessary in time to dispense with free elections so that this essential continuity of policy will be absolutely assured? If so, what becomes of "full employment *in a free society*"? (2) If lobbies and pressure groups must be resisted, what is the technique for resisting them? Are free association, collective bargaining, and other forms of pressure to be finally prohibited, even though the full employment policy, as stated *before* its adoption, asserts that free association and collective bargaining are to be permitted?

Obviously, Sir William himself here hints at the prospect of inevitable decline in liberty and freedom. In fact, he says, ". . . the problem of maintaining full employment [through his outlay maintenance program] is more complicated in a free society than it would be under a totalitarian regime" (p. 23). Here Sir William makes a sound observation. Once a political party is in power and is committed to this full employment policy it will be very easy for that party, when it runs into difficulties (as it will), to move from the hint here given by Sir William to the utilization of totalitarian methods.

Coming back to this problem, Sir William again states,

> The general conclusion is that the degree of liberty in such matters which can be left to agencies independent of the State, without imperiling the policy of full employment, depends on the responsibility and public spirit with which those liberties are exercised (p. 37).

If the policy of full employment fails, who is to be the judge of which liberties and whose liberties are to be reduced or destroyed?

Extension of State Power: A very great expansion of governmental power and authority is recognized by Beveridge as indispensable for this full employment policy. He minces no words when he says,

> Full employment cannot be won and held without a great extension of the responsibilities and powers of the State exercised through organs of the central government. No power less than that of the State can ensure adequate total outlay at all times or can control, in the general interest, the location of industry and the use of the land. To ask for full employment while objecting to these extensions of State activity is to will the end and refuse the means (p. 36).

We are highly indebted to the utter frankness of Sir William. He knows and says, although he seems to want to deny it elsewhere, that once this full employment policy is embarked upon, the state of freedom will differ radically from that in a free market economy.

Lest we overlook any evidence of the state of mind which is represented by Beveridge, note his recognition that this:

> . . . gives to the State *all the necessary powers* for that purpose. How the State should exercise those powers, how much it should undertake directly and how much should be done by private citizens, *can be left to be settled later* in the light of differing views as to the advantages and disadvantages (p. 192, italics supplied).

Although Beveridge insists that the government's policy must have "reasonable continuity," he is not willing to tell us in advance just how far the government may have to go in shearing the individual of his freedom and how far the government may have to go in taking over additional functions and tasks.

The Place of Private Enterprise, if Any: The British White Paper, "Employment Policy," appears relatively neutral with regard to the place of private enterprise in the new order; the Murray bill would seem to place some responsibility on the President to give private enterprise an initial boost when it flags. But Sir William "feels" that really private enterprise is about dead, we have not yet buried it. Indeed, he would let it stumble along as best it can until it reaches the cliff—then its obsequies can be celebrated.

Actually, Beveridge hops back and forth on this issue throughout his book. Thus he says: "There is every reason for *hoping* that full employment *could* be secured in peace by the policy outlined here, while leaving the major part of industry to private enterprise" (p. 205, italics supplied). Again he says, that the "significant doubt that arises on this is as to the possibility, under such conditions, of bringing about a sufficient stability of private investment, and preventing its cyclical fluctuation. It is reasonable to let that doubt be resolved by experience." In other words, let this threat of socialization of production overhang private enterprise. Nothing could be better calculated to cripple, stifle and thwart the necessary new private investment and technological improvement than such a threat. Who would invest in new ventures or improvements under such circumstances? One of the chief reasons for the colossal inefficiency of the English coal industry is that for a generation the threat of nationalization has hung over it. Today the output per manshift is the same as before the First World War. Sir William would now let this threat hang over all industry.

So as to reassure the reader, Beveridge says, "The policy of full employment outlined here is a policy of socializing demand rather than production." (p. 190.) But he also said:

> It may be found convenient, as a subsidiary (!) measure, to transfer particular industries from private to public ownership, in order to increase the power of the State directly to stabilise demand in a specified sector and in order to bring monopolies under assured control. (That is, give the State a monopoly.)

Beveridge insists on everybody's cooperation. Thus he says, if labor will not cooperate but insists on unreasonable wages, on restricting output, on being undisciplined or on being inefficient; or if the capitalists sabotage the system "desiring to make difficulties for the State;" or private ownership interferes with the desired equalizing of wealth—if these things happen then we must also socialize production.

Elsewhere in the book, he says that this policy "makes possible the retention of private enterprise. . . . At the same time it does not block the way to socialization of production in general or in any particular industry." (p. 191.) Earlier he had said:

> The list of essential liberties* given above does not include liberty of a private citizen to own means of production and to employ other citizens in operating them at a wage. . . . On the view taken in this Report full employment is in fact attainable while leaving the conduct of industry *in the main* to private enterprise. . . . But if, contrary to this view, it should be shown by experience or by argument that abolition of private property in the means of production was necessary for full employment, this abolition would have to be undertaken (p. 23, italics supplied).

The foregoing is enough to suggest how long private ownership and enterprise would survive the inauguration of the Beveridge program. We are indeed highly indebted to Sir William for raising some of the right questions about the compatibility of private enterprise and full employment guaranteed by government.

Free Labor and Collective Bargaining: All will agree that Beveridge is right in appraising private enterprise as a device, as an instrument for attaining some desirable end of man. All we ask, however, is that this device be appraised from all angles, in terms of its total potential, in terms of both its merits and its demerits, and not merely in terms of one *or* the other.

When we come to labor, there can be no compromise. Labor is not a device or an instrument—rather, it is an end in and of itself. The human being was not made for the State; the State was made for man.

Although Beveridge's heart goes out to the disemployed worker and his family, he thinks of the worker primarily as a producing and consuming unit—an econmomic unit. Security must be had for him, apparently, at the price of his liberty. And this is said in spite of Beveridge's postulated essential liberties, noted above. Why is this a fair statement about the freedom of labor under Beveridge's full employment policy? To get the answer, we must note what he says and what he implies.

* The essential liberties Beveridge states as: freedom of worship, speech, writing, study and teaching; freedom of assembly and of association; freedom in choice of occupation and freedom in management of personal income (p. 21).

Beveridge is prompt to recognize that a full employment program under which there are always more jobs than people to fill them is an explosive situation. The pressure upon wages may become irresistible. Employers would be forced to bid up wages in order to attract labor, and the workers, both individually and collectively, could make and enforce wage demands or demands for shorter hours and other personal advantages. Beveridge states:

There is a real danger that sectional wage bargaining, pursued without regard to its effects on prices, may lead to a vicious spiral of inflation, with money wages chasing prices and without any gain in real wages for the working class as a whole (p. 199).

Again, he says:

If trade unions under full employment press wage claims unreasonably, maintenance of a stable price level will become impossible; wage determination will perforce become a function of the State (p. 207).

He is exceedingly critical of collective bargaining by plants, by individual industries and insists that the present British method of collective bargaining (similar to that of the United States) must give away to an over-all approach under which the individual union will be told what to do and when it can do it.

The central labor federation would become an arm of the State:

. . . the central organizations of labour, such as the Trades Union Congress General Council, should devote their attention to the problem of achieving a unified wage policy which assures that the demands of individual unions will be judged with reference to the economic situation as a whole (p. 199–200).

It will be recalled that in totalitarian countries, Italy, Russia and Germany, for example, the free labor unions were quickly abolished, and all workers were required to become members of government unions.

Beveridge expresses the pious hope, ". . . wages ought to be determined by reason . . . and not simply by the bargaining power of particular groups of men" (p. 200). If the parties fail to agree, he suggests wages be settled by "an agreed arbitrator," but fails to suggest how he is to be selected or what methods are to be used to force the parties to agree to submit a dispute to such an arbitrator. But he adds this somewhat ominous statement: ". . . men should not be imprisoned for striking, though *they may rightly be deprived of all support* if the strike is contrary to a collective bargain or an agreed arbitration" (p. 200, italics supplied).

Although Beveridge is more specific than the British White Paper (Employment Policy), the latter agrees that unless labor exercises great self-discipline, the policy must fail. Thus the White Paper states:

Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable . . . it will be essential that employers and workers should exercise moderation in wage matters.

The reader must judge for himself whether in practice free labor and free labor unions would survive "jobs for all" as planned by the State. Discussing these same problems another renowned Englishman, Geoffrey Crowther, editor of the Economist (London), states, "I have a suspicion that the Nazi alternatives, diabolical though they are, have far too much logic of events in them to be brushed aside by the military defeat of Hitler." (Foreign Affairs, January, 1944.) But this will not be the only route open to us if we have the courage and wit to make the voluntary market economy function effectively.

V. No Alternative?

We have arrived at the point where, if one raises any objections to any and all "full employment" programs, he is labeled as being against jobs for all. Until the last decade, the synonym for "full employment" generally was nothing more nor less than "prosperity"; therefore, it can scarcely be argued that the critic of certain methods for attaining and maintaining this prosperity is against what is now termed "full employment." Hundreds of proposals have been advanced for attaining prosperity, from the programs of the single-taxers, social creditors and the cooperative movement to fascism, nazism, socialism, communism and, indeed, capitalism with a free market. From time to time the vogue changes. Today the panacea is in terms of government spending, under which the government always sees to it that there is enough purchasing power moving through the markets to absorb all the output at capacity levels.

How do we know that this current vogue is the best solution or even a solution? Just because it is the current fashion does not make it right, does not make it workable and does not assure us that we would accept it willingly, once we adopted it.

The decision we face is: Shall we shoulder upon government this responsibility for full employment or shall we adopt policies which will gradually alleviate suffering, mitigate mass unemployment, and encourage more effective operation of a voluntary, free society based upon individual responsibility and effort?

We need to remind ourselves that there is a vast body of penetrating and thoroughgoing scholarship which has placed its finger upon a host of private and public policies which themselves are responsible for the unsatisfactory performances of the private capitalist system in the recent past. Before we embrace a new philosophy which has not proven satisfactory in Europe, we surely should make certain that the blemishes on our system cannot be corrected. In a sense, this whole series of Bulletins has been concerned with such reconstruction.

VI. Summary Appraisal

Were there no other reasonably satisfactory solution to the problems of unemployment we all might embrace the new philosophy.[7] A voluntary free-market, capitalistic society can function satisfactorily only under a rule of law and a political and social environment which are in accord with its fundamental nature.

Great have been the achievements of this system in the past. Great is its potential if we have the wit to provide it a social and political milieu in which it can operate. Even its instability is not inherent in it. Mass unemployment is not a necessary result of a really free, flexible market economy. It results from an accumulation of wage and price rigidities, unwise credit policies, war-created distortions and maladjustments[8] and many other matters which are not inevitably parts of the system.

Furthermore, through unemployment compensation and other devices we can spread income more evenly *over time* and thus mitigate the hardships of such unemployment as is unpreventable.

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[7] Bulletin No. 3 in this series entitled, Full Employment: Its Politics and Economics, explained why, under a free voluntary society, no one class or group is responsible for jobs. The job-making process depends on the maintenance of profit *expectations* and this, in turn, rests on a vast complex of forces and factors.

[8] Two global wars within the memory of most adults living on our beleaguered planet have all but destroyed the foundations upon which alone a free voluntary society can operate.

Perhaps the traditional England is dead and we, still colonial-minded, are destined to ape her ways. It is highly unfortunate that the sponsors of the Murray bill have not disclosed the degree of centralized power and authority which their proposal will involve in practice. Only if they do this, are they in a position to determine whether they would be driven, willy-nilly, to the same conclusions and the same bitter end reached by Beveridge.

What has happened to the England of yesteryear which, under the lead of her bold and courageous businessmen, smashed the closed ring of the earlier authoritarian system—that of pre-Adam Smith mercantilism—and gave us our great shipping fleets, our iron, textile, machine and modern transportation industries and our conception of an international division of labor and trade? It would be a supreme tragedy if in this crucial hour England turned her back on her own great past and we, as mere imitators, followed in her train.

Considering our limited achievement of the 1930's in solving the unemployment problem, many persons believe that a much more reasonable goal than "full employment" would be the prevention of mass unemployment.[9] Since we failed in a much more simple task, is it altogether rational to set for ourselves a much more difficult objective?

Thus the editors of Life (March 5, 1945) state: "Although the Murray bill calls itself the 'Full Employment Act of 1945,' it shies away from Beveridge's all-out controls. Therefore, it cannot and will not guarantee full employment. What such a bill can help to do is to offset, minimize, perhaps eliminate, the real economy enemy in America, which is not individual idleness but mass unemployment. America must try—and should be satisfied—to lick that problem over the next 20 years. But to call that 'jobs for all,' as Wallace does, is at worst demagoguery, at best sloganeering."

The Murray bill, if it forces us to examine honestly and realistically every proposed bill, rule and regulation and every public and private policy in order to determine whether each contributes or hinders in the process of absorbing our whole labor force into productive economic activity, could serve a useful purpose.

If we can assume that the sponsors of the bill have a workable concept of the job-making process in a free society, although this may be a large order, there may be some benefit from an over-all review of the factors making for economic prosperity. This point will be discussed in a later Bulletin.

Appendix

Jobs are a byproduct of an effectively functioning economy. They are a means, rather than an end. Yet the current emphasis on jobs and full employment is apt to make jobs the *end* and therefore lead to programs promoting jobs merely for the sake of jobs. In fact Beveridge states that it is better to have men digging holes in the ground and filling them up again than to have unemployment. Lord Keynes has taken a similar position (see: Introduction to Bulletin 8 in this series). Indeed for the most part Beveridge is not concerned with efficiency and productivity.

A word must be said about the 60 million jobs which the politicians are promising for the post-war. Before the war we had about 46 million gainfully *occupied*. Several million were unemployed and of course

[9] This viewpoint is fully explored by Adolph G. Abramson, The Problem of Full Employment, Harvard Business Review, 1944, pp. 337-45.

we have had a net increase in the labor supply. Whether fifty, fifty-five or sixty million people will want to be gainfully occupied after the war cannot be determined in advance. The figure will depend on wage rates, regularity of earnings of the chief breadwinner, the cost of living, the intensity of demand for both existing and newly-developed products and a host of other factors. The "labor force" is not a fixed quantity, it is not a datum, a fact, as all three of the plans outlined above assume.

Finally, even assuming that the 60 million figure measures the labor force for the post-war, it is still a misnomer. We do not want 60 million *jobs;* rather the goal should be 60 million gainfully *occupied* persons. We do not have to struggle, strive and plan to develop jobs for the 6 to 8 million farmers, the millions of self-employed professional people, the millions of self-employed businessmen and many others. To include all of these in the 60 millions gives an erroneous impression of the task ahead. Thus the whole economy never has and will not need to provide more than about two jobs for each three persons gainfully *occupied.*

SECURING TOTAL EMPLOYMENT: THE ROLE OF GOVERNMENT
(By James O'Toole)

Full employment without inflation is generally accepted as a primary goal of national economic policy. Legitimate and important differences over definition aside, when the unemployment rate is down around the four percent level, this figure is widely taken as the prime indicator that employment conditions in the economy are healthy.

But full employment does not in itself signify a condition of true health in the labor market, it merely indicates the absence of serious or apparent illness. By way of analogy, a man with tuberculosis is clearly sick but is another man without visible signs of illness *ipso facto* healthy? Perhaps if we were to conduct a more searching examination, we might find his lungs black and deteriorating from smoking, his heart weakened from stress, or his resistance to all varieties of ailments lowered by mental depression or poor diet. Similarly, no clean bill of health could be granted automatically to even a full-employment economy unless the following kinds of latent or seldom diagnosed problems were eradicated from the body economic:

(1) Subemployment: working less than full time, full year (and often for less than the minimum wage) is a chronic problem for many workers. It has serious consequences for the life styles and life chances of families when it afflicts heads of households.

(2) Low-level employment: many disadvantaged and minority workers are trapped in jobs that offer them little in the way of dignity or self-esteem. These jobs are characterized by harsh and arbitrary discipline, unhealthy, unsafe, or inhumane working conditions, low pay, and the absence of a career path.

(3) Involuntary employment: many older people are forced to take jobs because they cannot live on their retirement incomes, many heads of households are forced to moonlight because they cannot attain a decent living standard for their families on wages from primary jobs, and many women who would prefer to stay home and rear their children are forced to take paid jobs in order to be eligible for social services.

(4) Underemployment—the underutilization of skills, training, and education of workers, described in the previous chapter.

The United States has not made much headway against these problems, in part because we pursue other problems that we can more readily measure. The measures used to evaluate public employment policy focus largely on unemployment statistics and the size of the labor market. These indicators are relatively unambiguous, but

* James O'Toole, Securing total employment: the role of government [illegible] Work [illegible] and the American future. [illegible] Jossey-Bass Publishers, 197[illegible] [illegible] Jossey-Bass Publishers, [illegible] Montgomery St., San Francisco, Calif. [illegible] Copyright 197[illegible]

Reproduced from: U.S. Congress. House. Should the Federal government implement a program which guarantees employment opportunities for all U.S. citizens in the labor force? House document 95-326, 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 29-40.

they tell us only whether jobs are available for all those workers in the *offical* labor force.

This official measure of the size of the labor force is both important and controversial. It is a partial guide to how many jobs might have to be created in coming decades, but it excludes millions of people who might want jobs if they were available. For example, it excludes labor-force dropouts who have given up looking for work, students who stay in school because they cannot find jobs, people on welfare, and those who are in sheltered environments ranging from prisons to mental hospitals. The labor-force participation rate is important also because only those who are in the official labor force can be counted as either employed or unemployed. The relationship of the participation rate and the unemployment rate is not a simple one; indeed, it is quite fluid. For instance, when new jobs are created, they are often filled by people who are not in the official labor force. White middle-class women often are attracted into the labor force to take new jobs, while chronically unemployed black men and boys remain unemployed.

Over the past decade, the total size of the labor force as well as the size of the force as a percentage of total population have grown remarkably. Paradoxically, as the economy created new jobs at a clip unprecendented in history, rates of unemployment also rose. The primary reason behind this phenomenon has been the entry of millions of women into the paid labor force. In 1950, the female labor-force participation rate was 33.9 percent; by 1973 it was 44.7 percent. Most dramatically, the rate of participation by women with children aged six to seventeen went from 32.8 percent in 1950 to 52.6 percent in 1972. Between 1975 and 1976, the number of women job holders and job seekers increased by nearly two million and accounted for almost all the growth in the entire labor force.

Since rates of unemployment mask such shifts in the demographic make-up of the work force, they are imperfect measures of the health of the economy. Still, unemployment rates are important pieces of information and not to be made light of, especially in the midst of a recession. But recession is not a permanent condition, and the presence of a temporary crisis should not distract us from pursuing more durable, appropriate, and longer-term performance measures for public policy. Although by necessity we engage in crisis management," we should not forget that the latent problems outlined above are basic and enduring shortcomings in the labor market and will not vanish with the current recession.

Clearly, current labor-policy performance measures are inadequate to the challenges that these complex, deeply rooted problems present. They're inadequate, in brief, because they aggregate and thus obscure such problems as chronic subemployment and the existence of millions of labor-force dropouts. Moreover, the measures lead to the policy conclusion that simply creating more jobs will cure the major illnesses of the labor market. Unfortunately, the simple availability of jobs is often not enough to satisfy the economic, social, and psychological needs that lead people to seek work. Although providing jobs is widely accepted as one of the best public-policy responses to such social problems as poverty, family disorganization, and physical and mental ill health, not just any jobs will do. In order for work to function as a lever on social problems, the right jobs must be made available at the right time to those who need them. This requirement is complicated by the fact that the work needs of individuals change—a job that is good for a young person is not necessarily good for the father of triplets. Moreover, the quality of a job is important in determining its value as an ameliorator of social problems—handicapped, disadvantaged, and other workers need to be able to build their self-esteem on their jobs. These are admittedly difficult demands to cope with because they introduce qualitative measures into an area where problems and solutions seemed to lend themselves so well to quantification.

From the point of view of public policy, these qualitative concerns also lead to two very frustrating conclusions. First, no monolithic program can satisfy the wide range of employment needs. Second, the creation of jobs through either macro-economic stimulation or public service employment are essential but woefully insufficient responses to the latent problems of employment.

Definitions and Myths

In the *Work in America* report, my colleagues and I suggested that total employment is a more appropriate measure of a healthy labor market than is full employment. *Total employment* is defined as a condition in which everyone who desires a job would be assured of finding one that reasonably satisfies his or her personal needs. Clearly, total employment cannot and should not be mandated by government fiat. It can only be achieved by policies designed to create greater freedom of choice for workers. People must have real options among an array of jobs offering different challenges, styles of supervision, physical working conditions, and working hours. They must be able to select the appropriate stages in their lives in which to seek paid employment. Such freedom of choice does not currently exist because of certain inflexibilities and inequalities in the labor market that restrict its free play. No doubt a variety of policies could help to remove some of these barriers and thus permit self-adjustment in the labor force—a process that may be the only equitable and nontotalitarian solution to the latent problems of employment.

Unfortunately, such policies are unlikely to be fully or fairly evaluated in the framework of the current orthodoxy of labor economics. One simply cannot measure the distance to the stars in quarts. Consequently, before moving on to a consideration of total employment policies, we need to examine some myths, fictions, and superstitions that currently misinform and constrain our vision.

Myth 1: The problems of unemployment can be solved simply by creating more jobs. Economists view unemployment as a condition in which the demand for existing jobs by those in the labor force exceeds current supply. This concept is quickly translated into the less sophisticated notion that unemployment means there is a shortage of jobs. Thus, when policy makers decide that the shortage has grown to intolerable proportions, they often pursue a simple and logical course—they use macro-economic stimulation to create more jobs. Paradoxically, this action may lead to even higher rates of unemployment because the new jobs attract people into the paid labor force who previously were not looking for jobs, as I pointed out earlier in discussing women's entry. Even in the unlikely event that the United States were to devise millions of new jobs through massive spending or a program of public-service employment, because of this "substitution effect" there would still be many people who would need, but would not be receiving, the benefits of a good, steady job.

Thus, the notion of shortage is basically nonfunctional in relation to policy development, which requires an alternative way of framing the problem. Apparently simple cases of shortages often can be better understood and acted upon if they are seen as complex problems of maldistribution and mismatching. Recent attempts to increase the supply of medical manpower illustrate this phenomenon. In the late 1960s, American medical schools made a concerted effort to gain a windfall in federal aid by convincing the American public that there was an acute shortage of doctors. This alarmist tactic almost worked—until more thoughtful analyses showed that the apparent deficiency is due more to a maldistribution of doctors both by specialty and geography than to general shortage across the board. There are more than enough psychiatrists in Manhattan, but too few pediatricians in the ghetto; there are so many radiologists in Los Angeles that they have to inflate their fees to keep their incomes above the so-called starvation level (seventy thousand a year), but there are not enough general practitioners in rural Iowa. Thus, what was called for was a system of incentives for the medical schools to correct these distribution problems, and such a program was enacted by the Congress in September 1974.

Similarly, the idea of unemployment itself may not be a valid guide to setting policy. If certain rigidities and blocks were removed from the job market, the total number of jobs might not be far short of the total number of people who want and need jobs at a given time. Here, too, poor distribution is a useful concept. That is, some people who do not want jobs are forced into the labor market because of tradition, laws, or the lack of available alternatives or resources, and such barriers exclude many others who want and need jobs. Those who might be reluctantly employed include: adults who would like to take a year or two off from their jobs to return to school; older people who would like to retire earlier than age sixty-three or sixty-five; welfare mothers who would rather stay home and rear their children than take the so-called incentive of a demeaning, poorly paying job; middle-class mothers who would like to care for their children but feel pressures to work from the woman's movement; and fathers who would rather stay home and take care of their children. Among those who would like to take jobs but cannot find them are the subemployed 20 to 35 percent of ghetto men and boys; teenagers who would rather work than be in school; women who prefer work in the labor market to work in their homes; retired people who would like at least some part-time work; and the so-called expendables of society—addicts, convicts, and the handicapped—many of whom would prefer honest labor to being warehoused in public institutions.

For nearly one hundred years, free-market industrial economies have tried to curb unemployment by increasing the *overall* number of jobs. Regrettably, and often tragically, these noble experiments have failed. A century is a fair test for a policy that does not work. Perhaps it is time to try another tack, one designed to make the labor market freer and more functional. To do this, we may need social inventions that balance the labor supply and demand by allowing unwilling workers to leave the labor force and thereby opening up jobs for people who want and need them. Such policies would attempt to remove the social and legal barriers, such as some social welfare regulations, that force reluctant people to work. At the same time, they would seek to provide opportunities—and, in appropriate instances, income—to people who would like to leave the paid work force and do unpaid work, such as school work, child care, and voluntary social service work.

We are not ready to consider these policies, however, because other myths reflexively force us to raise objections.

Myth 2: Work is paid employment. According to this definition, a housewife and mother does not work. Yet if her services are replaced by a housekeeper, babysitter, and cook, or if she herself performs these tasks for others, both she and her replacements are now considered workers because their salaries are contributions to the gross national product. There are many repercussions of this definition. It forces some poor women to take low-paying, unsatisfying jobs in order to become eligible for government health, welfare, and other social services. Society would benefit more from properly reared children, from lower costs for day care, and from a citizenry whose freedom of choice was preserved than from the fruits of the low-level employment of these poor mothers. The issue is different for the middle classes: women will not be liberated until women *and men* can freely choose to take jobs in the paid labor force, or to stay home and care for their children, or both. This liberation will only occur when child rearing is as highly valued by society as paid employment.

Similarly, much volunteer activity might also be considered work. Working in hospitals, in churches, on school boards, in scouting, and in local government is not paid employment, but it is every bit as important to society as are many activities for which there is compensation—such as much of the make-work of public and private bureaucracies.

Raising the status of child care and volunteer work to that of paid employment would not be easy. It would first involve eliminating provisions that require employment as a prerequisite for social services. It might also necessitate some cash payments or tax write-offs for these activities, as is the case in other nations where there are child allowances, mothers' pensions, and pay or tax breaks for community activities. We are not open, however, to considering such alternative policies, not only because we believe that work is paid labor, but also because of our adherence to the following related myth.

Myth 3: All paid labor is ennobling. Labor and welfare policies reflect the puritan views that any job is better than no job, and no one is too good for any job. Taken to the extreme, these beliefs often lead to an incredible contradiction manifested by many political leaders: they espouse that work is good for everyone, but at the same time they find it necessary to force people to work. If the former is true, why is it necessary to advocate the latter? How is it that those who preach the dignity of work also believe that work should be used as punishment? At the root of this contradiction is the simple fact that not all jobs are good jobs.

Although many jobs provide the social, psychological, and economic rewards that make work so essential and meaningful to life, some jobs offer none of these satisfactions. Not only do they fail to provide the worker with even minimal dignity, challenge, and economic resources, they may actually destroy an individual's self-esteem.

The nature of work, then, is a critically important variable in discussion of total employment. Related to the nature of work is the stage in one's life when one takes a certain kind of job. For example, picking fruit is not a bad summer job for a student, but it is literally lethal for migrant farmers and their families. There is nothing wrong with working in an unsteady, low-paying job if one is young and single, but if one tries to marry and raise a family in such an economic condition, the odds are that the marriage will quickly dissolve.

The devastating consequences of the nature of work experience on family life were illustrated to me in 1967 to 1968 while I was doing research in the black community of Los Angeles and in the Cape Coloured community of Cape Town, South Africa (O'Toole, 1973b). As I mentioned in Chapter One, there was considerable family disorganization in both communities especially among the poor. My original thesis was that the unemployment of fathers was the common cause of the high rates of desertion, separation, and mother-headed households found in both communities. In South Africa, however, I discovered that unemployment was only at the frictional level, and in Watts even the high 12 percent rate of adult unemployment could not account adequately for the extreme pathology in that ghetto. It occurred to me after I had completed my research that the crucial variable in both communities was the *nature* of the father's employment. In neither community were men who worked in unsteady, low-paying, demeaning, unskilled, and dead-end jobs likely to have the self-esteem or social or economic wherewithal to hold a family together. In Watts, I estimated that only 65 percent of the men over age eighteen worked full time, full year, and earned more than the minimum wage. That is, the subemployment rate for Watts was approximately 35 percent. It was not purely coincidental that in about a third of the homes in Watts the father was absent and that about a third of the families were on welfare. Of course, there were not always direct relationships among male subemployment, mother-centered families, and welfare cases, but the three factors correlated far more often than not.

From the point of view of family formation, then, all jobs are not good jobs. Moreover, the person who has paid employment in a family is a crucial variable. In both South Africa and the United States, nonwhite women were more employable than nonwhite men. Nevertheless, the availability of a job for a woman with small children had no positive effect on family cohesion or other social problems related to employment and poverty. It was the fathers of young children who needed paid employment. Ironically, welfare work-incentive programs in the United States are designed to get jobs for mothers instead of finding jobs for fathers of welfare children. Work programs are not directed to the fathers because they are not on welfare themselves, even though they are the proximate cause of their family's welfare status. Punishing welfare mothers by making them take undesirable jobs has little or no positive impact on the familial or employment problems of the chronically disadvantaged. (Of course, these women also need the freedom to take a paid job if they so choose.) Headway will be made in the ghetto only when all men who wish to have families can be assured of good, steady jobs that will enable them to support their families. Such a goal will not be realized, however, as long as the following myth is believed.

Myth 4: Total employment would entail the involuntary mobilization of millions of workers in public-service jobs. Many countries in which unemployment has ceased to be a problem—Russia and China, for example—have achieved total employment at the expense of personal liberty. The specter of such totalitarianism has been raised by the editors of the *Wall Street Journal* and others when arguing the case against *full* employment. But *total* employment is a nontotalitarian concept based on enhancing individual freedom of choice. Its goal is not to force every citizen to take a paid job but to remove artificial constraints and rigidities that restrict the free play of the labor market. Artificial educational credential requirements, discrimination based on age, sex, class, or race, and government policies that restrict educational aid to the young or require employment among the middle-aged are examples of constraints that might be removed.

Moreover, most employment is rather monolithic in terms of the hours workers are required to be on the job. There are not enough part-time jobs or jobs with flexible days or hours to provide workers with any choice. It is quite possible that providing greater opportunities for part-time jobs through job sharing would reduce some of our most intractable unemployment problems, even with less job-creation effort.

I have interviewed a number of unemployed people and have often come away with the feeling that working conditions are frequently a barrier to their taking jobs. The spectrum of reasons unemployed people give for their status is incredibly wide, but in many cases it boils down to the fact that the jobs that are available do not meet their specific needs and desires. For example, I recall an engineer who didn't want to take a job beneath that status, a blue-collar worker who wanted a job that was intellectually stimulating, a middle-class woman who wanted a job with training and promotion opportunities, an elderly man who wanted to work three or four days a week at a reduced salary in a union shop, and a young college graduate who wanted "to work in a team situation with interesting people." One wonders how much unemployment would be reduced if these workers and others like them had greater choice among the kinds of jobs and working conditions that were available? Even without increasing job creation efforts, it is probable that a great number of unemployed people could find jobs. What appears to be needed is the removal of certain legal and credential barriers to employment, better matching of jobs with individual social, psychological and economic needs, policies designed to create more diversity and flexibility in the conditions of work, and easier movement in and out of the labor market. We do not need a totalitarian concept of full employment. Rather, we must begin to think of ways to remove barriers that inhibit freedom of choice and human development.

However, since a free market works well only when its participants are relatively equal, it may be necessary to create some additional public-service jobs in order to produce greater job diversity and options for those people not fully served by the free market. But these kinds of jobs should be kept to a minimum, because they tend to be inferior to private-sector jobs (despite the denials of decent and well-meaning people). They quite often pay more, but in terms of challenge, autonomy, status, and opportunities for growth, they tend to fall short. As evidence presented in Chapter Three shows, in the public sector, clerical and service jobs constitute 42 percent of all employment (78 percent if teachers are excluded), while in the private sector such jobs account for only 28 percent of all employment (U.S. Department of Labor, 1974b). One out of three new jobs is being created in the public sector, and although these jobs are not exactly menial, 60 to 70 percent call for the employee to be an aide, attendant, assistant, clerical worker, custodian, or semi-skilled blue-collar worker. In addition to these criticisms of public employment, there is at least impressionistic evidence that private employment is more innovative, flexible, and responsive to the needs of workers. For example, the kinds of self-management described in Chapter Five and worker ownership described in Chapter Nine are all but impossible in the civil service, which, by necessity, must be first and foremost responsible to the voting public.

Another drawback of creating public-service jobs is that they end up going to middle-class people, not to those in the central cities who are most disadvantaged. The chronically subemployed individual has as much trouble holding a public-service job as he does holding jobs in the secondary labor market. At least with day-laboring jobs he does not need the senses of discipline, punctuality, and cooperation that are needed in jobs created under the Comprehensive Employment and Training Act of 1973 (CETA) and other public-service programs. To find ways to make government employment serve those who most need it, the Manpower Demonstration Research Corporation of New York has begun a series of experiments with alternative working conditions. They hope to identify the conditions under which hard-core unemployables can find success on the job. For example, in some cases the workers are not held to strict standards of punctuality and attendance to start with, but gradually the standards are increased as the workers build their work habits. So far, this is all theory and experiment. Until there are solid findings, public-service jobs will continue to benefit primarily the middle class.

There is also some evidence that public service jobs do not make the best use of government expenditures for job creation. Apparently, the number of jobs created varies considerably from one government program to another. The following table (drawn from several not terribly reliable sources) illustrates the number of jobs created by spending one billion federal dollars in various ways.

51,000 jobs if spent on highway construction (Bezdek and Hannon, 1974).
55,000 jobs if spent on defense contracts (Babson and Brigham, 1976).
60,000 jobs if spent on CETA-like public-service programs (Wall Street Journal, 1976).
76,000 jobs if spent on public housing construction (Babson and Brigham, 1976).
84,000 jobs if spent on health programs (not construction) (Bezdek and Hannon, 1974).
85,000 jobs if spent on water treatment plants (Porter 1975).
90,000 jobs if spent on education programs (not construction) (Babson and Brigham, 1976).

The actual numbers here are irrelevant. What is important is that every dollar spent by government influences new employment opportunities, that different programs have different job-creation effects, and that CETA-like public-service programs, while not the least effective, are far from being the most effective job-creation tools at the disposal of the government.

For all their liabilities, public-service jobs are nevertheless popular with politicians and the public because they give the impression of forceful and direct action on the problems of unemployment. It is hard and slow work to create jobs that produce goods and services in actual demand, but it is easy and fast to start up training programs and public-service employment. Yet the latter programs are basically palliatives, and because they do not treat the *causes* of unemployment they may even be counterproductive in that by alleviating the *symptoms* they remove pressures to act on the root causes. When unemployment reaches 7 or 8 percent, advocates of public-service jobs are able to command a wide audience (and are usually able to get a public-employment bill passed in Congress). Then, when unemployment slips back to 5 or 6 percent for cyclical reasons, the public quickly turns its attention to other areas of concern, satisfied that the prompt and wise leadership in Washington has adequately dealt with the problem. Consequently, true reforms are seldom considered, and the damaging problems of subemployment, low-level employment, and involuntary employment remain and grow worse.

The government does have a role in employment, but it should be more creative in applying its funds and regulatory powers in order to produce not only more jobs in the private sector, but more good jobs. For example, in Chapter One I suggested how a new returnable bottle law might create jobs. In another case government could create either 423,000 new jobs with a health program or 256,000 with a highway program—both for an identical investment of $5 billion. In making spending decisions, government should consider both the number of jobs to be created and their potential for producing steady, challenging work with career mobility. (See Chapter Ten for a development of this notion.) Thus, it is more effective for government to use its power to create jobs in the private profit and nonprofit sectors than it is to create public-service employment. In no fashion does a policy of total employment require either worker coercion or greatly increased government employment.

Myth 5: Total employment requires economic growth. In the future, the rate of unemployment may fall toward zero, even without much economic growth. Indeed, within the next thirty years employment rates may be reported negatively, expressing a situation in which demand for workers exceeds supply. The convergence of five trends makes such a zero-growth, total-employment future a distinct possibility: (1) The rising costs of energy may lead to the increasing substitution of labor for capital. (2) The increasing scarcity of capital in our economy may lead to more labor-intensive enterprises. (3) The continued shift from an industry-based economy to a services base will create more jobs. (4) Environmentalist pressures will exacerbate the shift away from capital-intensive, "dirty" industries (metals and mining, for example) toward "cleaner," labor-intensive health, education, and other services. (5) There will be a demographic shift, culminating in about thirty-five years, which will cause the proportion of retired persons in the population to be greater than ever before in American history. Each of these five trends would have the effect of lowering productivity and economic growth while increasing the demand for workers.

Whereas unemployment in the traditional sense will probably disappear in the United States in the future, the broader issue of underemployment might become more acute for all social classes because trends toward labor intensivity and zero economic growth could lead to a greater number of routine jobs. (These issues are elaborated in Chapter Ten.) Here again, macro-economic policies and public-service employment are ineffective tools. The problem is not a shortage of jobs, but a poor mix of jobs. Looking at employment through these new lenses, we focus our attention on policies designed to remove rigidities in the labor market, to enhance individual freedom of choice, to increase the flexibility and variety of jobs, and to encourage human development. Such policies for total employment, although devilishly difficult to pursue, are at least not trade-offs against inflation.

Myth 6: Total employment is inflationary. We are now painfully aware that *high* rates of unemployment and inflation can exist together. Does this mean that it is also possible to concurrently experience *low* rates of unemployment and inflation? The current contradiction of the Phillip's curve trade-off reopens this possibility for discussion.

It is appropriate here to look at some nontraditional employment policies that either are immune to inflation or are proved inflation fighters. Obviously, total-employment policies that consider the problem to be maldistribution rather than a shortage of jobs bypasses the issue of inflation. If one's tool for fighting unemployment is not macro-economic, then there is little problem of its directly fueling inflation.

A non-macro-economic policy of note in this regard is manifested in West Germany's active manpower planning and training program, referred to in Chapter One. The German strategy for worker retraining and job change recognizes that career immobility can be a source of worker discontent and of inflationary pressures. Although the German program is not demonstrably associated with that country's relatively low rates of inflation and unemployment, many economists on both sides of the Atlantic argue that it has not hurt (Striner, 1972). Several economists propose for the U.S. a similar program that would decrease oversupplies of labor in declining industries and occupations by retraining workers for places where they will be more productive and where critical manpower shortages might otherwise create inflationary bottlenecks (Holt, 1971). Even at a possible cost of four billion dollars, such a program is attractive not only because it would lower the rate of inflation, but because it would create a quarter of a million jobs. It also strikes directly at the problems of underemployment.

Several other employment policies could make lesser, but still significant, contributions to lowering inflation. The following measures would tend either to increase the mobility or productivity of workers or to increase the efficiency of the economy, thereby helping to reduce the rate of inflation for any given level of employment: (1) reducing race, sex, and age discrimination; (2) increasing mobility and vesting of pensions; (3) introducing profit sharing tied to worker or small-group productivity; and (4) redesigning jobs.

Alternative policies

What is important about all of these proposals is that they are compatible with the total-employment approach I've been describing. Although such an approach assumes the importance of using macro-economic policy to keep inflation and unemployment as low as possible, the strategy is not *dependent* solely on macro-economic policy, public service employment or any traditional economic methods for creating new jobs. That is how it differs from what we have, and that is why it probably has a greater chance of success than does the current approach.

In order to create total employment, a series of discrete but compatible private and public programs must be undertaken, many of which can be initiated at the state, community, or plant level. Such programs might do one or more of the following: facilitate the withdrawal from the paid labor force of reluctant workers; help those who need and want jobs to acquire them; increase the mobility of workers; and make the job market more flexible. Possible program strategies might be to:

Reduce institutional rigidities in the labor market, such as seniority rules. Remove the minimum-wage requirements for those under twenty years of age and unmarried and raise them for persons over twenty and for under-twenties who are married.

Remove all government regulations in which employment is a prerequisite for social services. For example, make unpaid individuals engaged in rearing children eligible for social security benefits.

Provide a program of mid-career worker training or sabbaticals that covers school tuition and a substantial part of foregone income.

Provide programs that allow workers to taper off before retirement: for example, fifty-five-year-olds could work four days and sixty-year olds three days. Conversely, those over sixty-five would be permitted to work without penalty if they so elected.

Establish a system of domestic "Fulbrights" for people who would like to take a year or two away from their regular jobs to engage in some kind of public service. Xerox has such a program for its employees.

Provide a guaranteed minimum annual income through a negative-income-tax scheme.

Stop massive immigration except for political or humanitarian reasons.

Permit cities to charter and operate banks. These banks would underwrite loans to individuals or groups wishing to start nonprofit or cooperatively owned businesses that met the employment needs of an underserved group or community. For example, businesses would be eligible if they offered meaningful employment to the aged, youth, or minorities, or if they provided such groups with training to do meaningful but rare types of work, such as skilled crafts and repairs.

Provide human-depreciation tax allowances or employment tax credits linked to the ratio of employment to fixed plant and equipment. Both policies (or others like them) would encourage the use of labor-intensive processes in industry.

Encourage the creation of community councils designed to: (1) match people with work and education opportunities; (2) counsel employers in the redesign of jobs; (3) lobby for the creation of part-time and flexible jobs; and (4) engage in local manpower planning (Wirtz, 1975).

Provide more part-time jobs and job sharing. One example is the Pitney Bowes program, mentioned earlier, that permits two mothers to split one job. At some universities, a husband and wife may share a faculty appointment. Britain's Patrick Goldring (1974) suggests that if everyone were permitted to hold two jobs the worker in a bad job might find some satisfaction in another, better position; stressful executives could unwind in manual jobs; and potentially redundant workers could spend part of their work time in preparation for a future job. Although his proposal is fraught with practical obstacles to realization, it at least offers a response to the way society has segmented the work, leisure, education, and family aspects of our lives, producing workers who hate their work, who find no release in their leisure, and who find little time for their families.

This list of possible programs could be twice as long, and I am not certain that all the items included are either desirable or feasible. What is important is that we can and should start thinking in terms of such alternatives to traditional approaches. Although each such program has a cost, its potential benefits must be considered, not only in economic terms, but in terms of their effect on mental and physical health, crime, family cohesion, and social and political alienation. Moreover, one has to weigh the inflationary aspects of the alternative macro-economic policies and the costs of not acting at all in terms of lost income, taxes, and production.

In sum, total employment can be achieved through opening up the labor market, removing institutional rigidities, and offering people greater freedom to choose when and where they will work. Such a policy is appropriate now and will still be appropriate in the future when employment conditions change. Such a policy is equitable because it favors no race, class, age, or sex. And furthermore, it is compatible with traditional free-market principles.

Many things can be done on the local level using this approach that do not require federal initiatives. In particular, the problems of underemployment do not lend themselves to federal programs but are, as the next chapter argues, the rightful responsibility of employers and unions.

AGAINST A FEDERAL GUARANTEED EMPLOYMENT PROGRAM
(By Dave M. O'Neill[1])

This is 1973, not 1933. Stereotyped thinking notwithstanding, unemployment is no longer a significant cause of poverty. The vast majority of people who experience unemployment during any year are not members of the poverty population and, conversely, the vast majority of the poverty population does not experience involuntary unemployment. If modern poverty is related in any way to the labor market, it is via the low wages of the working poor. Government policy may have a role here, but definitely not in the form of large-scale job creation programs.

Moreover, even if there is some small amount of poverty that is the direct result of the inability of low-productivity persons to find jobs (even after a reasonable amount of search and at a wage realistic for their productivity), the chances that a large-scale public service employment program will alleviate this special problem are practically nil. Experience under the recent Emergency Employment Act program suggests that it is a lot easier to talk about creating jobs and filling them with very disadvantaged persons than it is actually to persuade local officials to behave in this way with the federal funds.

But perhaps the most tragic feature in committing the government to such a wrong-headed approach to modern poverty is that the commitment would divert resources and enthusiasm away from other, much more sensible policies: income supplements for the adult working poor; more generous welfare payments to the disabled poor; more and better developmental programs to enable the children of the poor to break the cycle of poverty and welfare. All these policy approaches will suffer from lack of funding and interest if a large commitment is made to the public job creation approach to poverty.

POVERTY, UNEMPLOYMENT AND THE LABOR MARKET

Table 1 gives the distribution of poor family heads and poor unrelated individuals according to work experience in 1971.[1] Note that fully half of all poor family heads and unrelated individuals live in poverty for reasons—old age, disability, disease and family disorganization—that are not only totally unrelated to unemployment but are also only remotely connected with the labor market in any way. For the other half, those who worked either full year, full time, or part year, their inability to obtain anything but low paying jobs, rather

* Dave M. O'Neill in Current History, v. 65, August 1973: 76–79, 88. Reprinted by permission of Current History, Inc., 4225 Main St., Philadelphia, Penna. 19127. Copyright 1973.

[1] This section draws heavily on an article by Jacob Mincer, "Poverty and the Labor Market," in The National [illegible] Research into Poverty Labor Markets. Final Report, a report prepared for the [illegible] Opportunity.

Reproduced from: U.S. Congress. House. Should the Federal government implement a program which guarantees employment opportunities for all U.S. citizens in the labor force? House document 95-328, 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 41-47.

(797)

than their unemployment, is the major cause of their poverty. Although the annual incidence of unemployment among the working poor is about twice that among the working non-poor, the fact that only about half the poor are able to work means that unemployment is a very minor cause of poverty in the present United States economy.

This lack of significant connection between unemployment and modern day poverty will strike some readers as so unbelievable that it may be worthwhile to demonstrate the situation from another point of view—by looking at the classification of the unemployed according to various characteristics.

Table 2 shows various characteristics of the 4.4 million people who reported themselves unemployed during the survey week in February, 1973. The data on duration of unemployment suggest that the average length of a spell of unemployment is probably about 11 weeks. This is not likely to throw one into a life of poverty. In most states, unemployment insurance benefits go on for at least six months.

The data on reasons for becoming unemployed are also enlightening. People who voluntarily leave jobs and workers just entering or re-entering the labor force make up fully 61 per cent of the unemployed.

TABLE 1.—WORK EXPERIENCE: FAMILY HEADS AND UNRELATED INDIVIDUALS BELOW THE LOW-INCOME LEVEL IN 1971

	Family heads		Unrelated individuals	
	Number (thousands)	Percent of distribution	Number (thousands)	Percent of distribution
Total	5,231	100.0	5,151	100.0
Worked	2,809	54.0	1,622	31.5
Full time, full year	1,084	20.7	292	5.6
Part year (u)[1]	655	12.5		25.4
Part year (other)	1,070	20.4	[2] (1,330)	
Did not work	2,422	46.0	3,530	68.5
Unemployment	118	2.2	83	2.3
Other reasons	2,304	43.8	3,447	66.2

[1] Those who gave unemployment as the reason for not working a full year.
[2] Data are not published showing the reasons for the part-year experience of unrelated part-year workers

Source: Current Population Reports, Series P 60, Consumer Income, No 86 December 1972

TABLE 2.—SELECTED CHARACTERISTICS OF UNEMPLOYED WORKERS, FEB 3 1973

[Seasonally adjusted][1]

Characteristic	Number (thousands)	Percent of distribution
Duration of unemployment:		
Total unemployed	4 484	100 0
Less than 5 weeks	2 324	51 8
5 to 14 weeks	1,265	28 2
15 to 26 weeks	530	11 8
27 weeks and over	365	8 1
Reasons for unemployment		
Total unemployed	4 442	100 0
Lost last job	1,724	38.7
Left last job	671	15.1
Reentered labor force	1,377	30.9
Never worked before	684	15 4

[1] Because of independent seasonal adjustments of the component series the figures for total unemployed in this table only approximate the actual number of unemployed in February.

Source: Employment and Earnings, vol 19, No 4, October 1972, table A-12 and A-14

Clearly, one would find individuals who are living in poverty on account of unemployment only within the subgroup who have lost their jobs involuntarily and have also remained unemployed for a very long time. In February, 1973, there were approximately 125,000 unemployed adult males who were both job-losers and unemployed for 27 weeks or more.

Thus, to the extent that poverty is related at all to unemployment, the size of the job creation program that would be needed would be a very modest one, say about 100,000 job slots at the very maximum.[2]

However, one might still argue for a large-scale public job creation program for the poor on the grounds that the working poor, if not actually unemployed, are underemployed, and that the government should provide jobs that pay a higher wage.[3] In considering the merit of this proposal, it is useful to distinguish mature adults and the elderly working poor from the young adult and teenage working poor.

Programs should be developed for the young working poor to provide financing, information and motivation to lead these young people into the mainstream of skill acquisition and career planning. Putting them into artificially created public employment jobs would amount to saying that they have no potential for development. Given the uncertain tenure and possibly depressing nature of the job slots that would be created, this approach might also very well do more harm than good.

It is probably true that not much can be done for the older working poor via programs for promoting skill acquisition and geographic mobility. Thus it is tempting to argue that they should be placed in specially created public jobs which would have higher rates of pay and would yield incomes above the poverty line. The argument against this superficially appealing approach is straightforward—there are far less costly ways of augmenting the income of the working poor.

Some form of negative income tax scheme has obvious administrative advantages over public job creation programs for augmenting the incomes of the working poor. In addition, one must recognize that many of the "created" jobs would turn out in practice to be "make-work" jobs with very little socially useful output involved. Thus, in transferring a poor worker from his private sector job, society would be exchanging his positive (albeit small) social product in the private sector for his negligible or zero product in the public sector. This would constitute a real (although not highly visible) cost of the job creation approach. Finally, there is the problem of the morale and productivity of non-poor public sector workers. They have presumably obtained their jobs on the basis of merit-related criteria. How would they react to the preferential treatment that would be accorded poor workers?

As a final point, it is important to note that regardless of what government program is adopted to aid the working poor, general economic growth factors are well on their way toward eliminating the phenomenon of "working poverty." In 1959, 4.8 million male family heads who worked lived in poverty; in 1971, the number had dropped to 2 million. The major cause of this trend was undoubtedly

[2] This figure is arrived at by dividing the total number of poor people who experienced any unemployment at all in [illegible] by [illegible] and dividing the result in half. The total number experiencing unemployment was estimated from the data in Table [illegible] to be about [illegible]. This estimate assumes that about [illegible] percent of the unrelated part-year workers experienced unemployment. Dividing by [illegible] assumes that the average duration of unemployment is about [illegible] weeks. Dividing the result in half allows for the usual amount of short-duration unemployment experienced by all groups in the labor force.

[3] See Harold Sheppard's article in *The Political Economy of Public Service Employment*, Sheppard, Harrison and Spring, eds. (Indianapolis: Heath, 1972)

the growth in the productivity of poor workers because of growth in the economy. If the 1959–1971 trend is projected into the future, it appears that the phenomenon of working poverty, at least among male-headed families, will disappear in about 15 years.

Public employment programs

Placing the working poor into public jobs is a bad idea in itself. Moreover, even the notion that in practice large numbers of the poor will actually end up in the public jobs that are created is overly optimistic.

This assertion will strike many as implausible. How can it be that a modern government like the United States cannot set up and administer a program that would accomplish such a simple objective—to use tax revenues to place poor people in public service jobs? All that has to be done, it would appear, is to mandate in the legislation creating the program that only poor people be hired with the funds appropriated for the program. Unfortunately, in practice, the real world and human nature being what they are, things are not that simple. Behold the workings of the Public Employment Program (PEP) that was created by the Emergency Employment Act (EEA) of 1971.

The EEA authorized $750 million for FY 1972 and about $1.2 billion for FY 1973 to create public sector jobs for the twin objectives of (1) providing needed public services; and (2) helping to reduce unemployment, *especially of disadvantaged hard-to-employ poor people.* Has the PEP achieved its objectives? Preliminary evaluative studies conclude that it probably has not. And although the data currently available for evaluative purposes are skimpy, the two sources that have reported lukewarm evaluations—Sar Levitan and the National Urban Coalition—are not enemies of federal manpower programs.[4]

In practice, local governments utilized part of the PEP funds to ease their own tax burdens. In other words, some unknown (but possibly very large) percentage of the program's 150,000 slots went to fill posts that would have been funded out of local borrowing or taxes in the absence of federal funds. Also, not surprisingly, the characteristics of those actually employed did not reflect the characteristics of the disadvantaged working poor population. For example, fully 78 percent were at least high school graduates, including many old, retired military officers who slipped in under a veterans' preference clause that was supposed to apply to Vietnam veterans only.

In short, the current small-scale public employment program is in all likelihood a failure in attaining either the objective of reducing the unemployment of the poor or in creating a net addition to local public services.

To be fair, one should note here that the EEA of 1971 created a public employment program that is a far cry from the program urged by the more vigorous proponents of the public job creation approach to poverty. The Nixon administration opposed the concept of public employment to combat poverty from the outset. Initial forms of the legislation put forth by Democratic senators were vetoed; thus the existing bill's structure and provisions reflect the compromise that came out of a partisan struggle; inclusion of the word "emergency"

[4] See Sar Levitan and Robert Taggart, "The Emergency Employment Act: An Interim Assessment," *Monthly Labor Review*, June 1972. *The Public Employment Program: An Evaluation by The National Urban Coalition*, The National Urban Coalition, 2100 M street, N.W., Washington, D.C.

in the title; ample use of the modifier "transitional"; provision for an automatic shutoff of most of the funds when the aggregate unemployment rate dips below 4.5 percent. Finally, and most important, it is a relatively small program (about 150,000 job slots in all) and was scheduled to terminate in two years.

However, the failure of PEP apparently has significant bearing on the potential of more ambitious programs. After all, the only important difference between the existing EEA and the proposals of liberal Senators is the size of appropriation involved. The language and criteria used in the large-scale bills proposed by the Democrats appear even less likely to insure that very poor people would actually end up in the newly created jobs.

Elements of a positive program

It is relatively easy to criticize existing programs and ideas. It is much harder to suggest wiser approaches. If large-scale public employment programs are not the answer to the poverty problem, then what is? The following program has four main parts. The first two deal with ameliorating the poverty of the older poor who are able (and do) work, while the last two cover two groups of the younger poor—disadvantaged male youth and young welfare mothers.[5]

A Realistic Role for Public Job Creation. As was noted above, some very small amount of the poverty problem is due to long term structural unemployment. There are a few older low-productivity workers who have either been marooned in a depressed area of the country or are victims of inflexible retirement systems of one sort or another. Whatever the cause of their inability to find work (even after a reasonable period of job search), their desire for work per se (as opposed to income transfers) is a legitimate concern of public policy and does create a demand for a *very small-scale* public employment program. However, in order to insure that this small-scale program reaches the long-term unemployed poor in practice, major changes in the administrative methods used to implement public job creation programs will be required.

Perhaps the most important administrative innovation will be to stop using simple measures of unemployment incidence as a basis for the geographical allocation of funds and individual eligibility. The EEA's allocation rule makes the amount a state gets a direct function of the number of unemployed individuals in the state regardless of their classification, either according to the reason they became unemployed or according to the duration of their unemployment. Although this simple-minded allocation might have been sufficient in the 1930's, when unemployment and poverty were largely overlapping, it can lead to inequitable allocations by area in the 1970's. Many relatively prosperous high-growth areas of the country (e.g., California) have had above average unemployment rates for the past 15 years. The reason for this phenomenon has nothing to do with poverty. Indeed, it has to do with something opposite to poverty—the migration of large numbers of (non-poor) people seeking to better their economic opportunities. In-migrants always experience above-average unemployment after they arrive in a new area. Thus, to insure that funds

[5] Programs and policies for the rest of the poor—those who are unable to work because of non-labor-market related reasons—are not covered here.

will actually be targeted on the structurally unemployed poor, legislative rules for area allocation and eligibility must utilize information on duration of unemployment, age, wage in last job, reason for becoming unemployed, and so on.

In a well targeted job creation program, further, the types of job slots created must be in line with the abilities of very low-productivity older workers. If the legislation mandates the creation of fairly high quality jobs (along with moderately high salaries), this will greatly reduce the probability that the poor will actually be hired to fill them. Such a mandate might also create serious inequities between the working poor in the private sector and those structurally unemployed poor who end up in the public jobs. In this regard, the success of the very small ($30 million) Operation Mainstream program in placing aged unemployed individuals in modest public jobs should be studied.

Income Supplements for the Working Poor. The Negative Income Tax (NIT) approach to alleviating the hardships associated with low income status is discussed elsewhere in this issue.[6] The working poor need more money income—that is their main problem. Any program that will simply place more money income at their command commends itself both on the grounds of cost-saving efficiency and on the grounds that it would cause the least amount of embarrassment for the working poor people.

Why has such a straightforward anti-poverty policy not been instituted? The main reason appears to be that mass uncertainty exists with regard to two issues: (1) would the existence of a negative income tax induce a large number of working poor people to reduce their work effort? and (2) would any negative income tax bill that was passed be *in addition to*, or a *substitute for*, the current rag-bag of in-kind income supplements that the working poor already receive. The results of large-scale work-incentive experiments will become available soon and should shed some light on the first question. The answer to the second question will involve clarification of just how to treat in-kind income (e.g., public housing, food stamps, medicare and so on) in our discussions of poverty lines and appropriate levels of income supplements. In the interest of a sane, consistent approach to the poverty problem, in-kind and cash income should both be counted in determining levels of need and program objectives. Thus, if the in-kind programs are to be retained, then the level of the cash-income supplement does not have to be nearly so high as if the in-kind programs are to be discontinued.

Information, Financing and Motivation for the Young. The government should refocus its entire manpower effort so that it deals exclusively with disadvantaged youth. A major strategic mistake of manpower policy in the 1960's was government involvement in problem areas in which it had no legitimate interest. Large numbers of non-disadvantaged adults passed through the portals of the MDTA[7] program. Many observers took this apparent demand as evidence of program effectiveness. However, subsequent follow-up studies failed to discover any impact of the training on the long-run earnings capacity of these "trained" adults. One can only conclude that the generous training allowances created the apparent demand for this program.

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[6] See the articles by Robert McNown, Larry Singell and Richard Pious

[7] Manpower Development and Training Act

But this is not surprising. The private market sector is an efficient engine for getting much human as well as physical capital financed and produced. The only situation in which the private market mechanism could be expected to fail would be in the case of the disadvantaged youth who, because of lack of information, funds, and motivation, failed to make the requisite investment in human capital at the crucial early stage in life. This, then, should be the focus of manpower policy in the 1970's. Manpower policy should be integrated with policies toward high school that involve drop-out prevention, career counseling, and so on. In fact, it would probably be a wise strategy to drop the term "manpower" altogether. A better name for the overall program should be "Career Development Assistance." Its starting point should be the early years of high school and it should make available to the very young man a veritable avalanche of options including Job Corps, on the job training, two-year college, four-year college, migration assistance, marriage counseling, psychotherapy, and so on.

Young Welfare Mothers. The problem here is how to prevent these young girls from joining the welfare roles. The current manpower policy approach to welfare mothers (the Work Incentive Program), although it has increased the total amount of work effort among AFDC mothers, has not made a dent in either overall welfare costs or caseloads. The only realistic solution to the dependent children problem is prevention. Somehow programs must be devised to make a young girl growing up in the ghetto feel that she will be better off if she foregoes the welfare life style and opts for the standard middle-class life style, avoiding illegitimate births. What kind of a program will produce this result? This is one of the major challenges for social research in the 1970's.

CONTROVERSY OVER THE HUMPHREY-HAWKINS PROPOSALS TO CONTROL UNEMPLOYMENT: CON

(By Michael Markowitz[1])

The NAM recognizes fully the magnitude of the unemployment problem and its disastrous effects on the entire economy. We believe that the concept of expanding public service jobs to take up the slack in periods of substantial unemployment has much merit.

We are not opposed to that concept in principle or in total. However, we do believe that this Utopian concept of the guaranteed job for everyone as would be provided in H.R. 50 would present serious problems, and we believe that these problems would outweigh the benefits that this bill would offer.

We therefore go on record as opposing H.R. 50 as presently written. There are a number of reasons. First of all, we believe that under this bill you would have a good many unqualified people entering the work force.

Second, we believe that this legislation, as it is written, would probably produce an imbalance between buying power or demand and production or supply of goods and perpetuate what we think is the present inflationary spiral which hopefully will begin to abate but which under the provisions of this bill most likely would not.

Third, we feel that the tremendous cost of the program as outlined in H.R. 50 would outweigh its benefits.

Finally, we believe there are a number of defects and ambiguities in the actual structure of the bill which ought to be brought to light so that there is opportunity to correct them.

We believe the bill's sponsors are really providing a legislative vehicle for job applicants to sue the Federal Government, not only if they feel they have been unfairly treated in their search for employment, but if they feel they are not being paid at rates bearing a positive relationship to their qualifications, experience, and training.

Clearly, there are no wholly effective criteria which could possibly be developed to determine this relationship in individual cases and to flood the courts with these kinds of cases is clearly unwarranted.

We also believe the injection of people not competent to perform a job in any enterprise would undoubtedly slow down or disrupt the process of that enterprise and indeed its efficiency. We do not believe this is in anyone's interest.

Another point we wish to make is we feel there is a danger that the structure of the work force growing out of the mechanism contained in the bill could be overweighted on the side of the public sector and this could be unhealthy in the long run, even unhealthier perhaps than the normal rate of unemployment.

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* Michael Markowitz, National Association of Manufacturers, in Controversy over the Humphrey-Hawkins proposals to control unemployment: pro and con. Congressional digest, v. 57, June-July 1978: 187, 189, 191. Reprinted by permission of Congressional Digest Corp., 3231 P St. N.W., Washington, D.C. 20007. Copyright 1978

[1] From testimony presented on March 18, 1975, before the Subcommittee on Equal Opportunities of the House Committee on Education and Labor in the course of hearings on H.R. 50 which, at the time of original introduction, was termed the "Equal Opportunity and Full Employment Act."

Reproduced from: U.S. Congress. House. Should the Federal government implement a program which guarantees employment opportunities for all U.S. citizens in the labor force? House document 95-328, 95th Congress, 2d session. Washington, U.S. Govt. Print. Off., 1978. p. 48-50.

It insures, we believe, that the consumer buying power will continue to escalate across the board without a corresponding increase in production.

Therefore, the prices of the limited supply of goods would continue to rise adding further fuel to the fires of inflation.

While this would be true to a certain extent in any public works program, on the scale contemplated here, the problems posed would be substantial.

The number of people in the Government on the payroll would be out of all proportion to the number employed in the private sector.

One further concern regarding this kind of extensive public employment program is the substitution effect. That is always a risk. By this, we mean the drawing of low-paid full-time or part-time workers out of the private sector in search of higher paying public service jobs.

There are complex problems involved in determining the types of jobs to be made available, who should get them and the wage level necessary to attract workers into the programs without drawing them out of the private sector.

We think any policy of incorporating an extensive public service job program must consider these questions carefully, and a program of the type contemplated here would face, we think, substantial problems in this regard.

We are concerned about the very real possibility that this kind of program, an expansion program, would aggravate the present unemployment situation bringing people who are presently really not in the job market into the job market.

We do not see the point of a government funded program that should be specially concerned with providing jobs for those who normally would be in the work force, either presently or would wish to be under present circumstances, becoming a bonanza for those who otherwise really would not want to be in the work force.

A third point that we want to make is that we believe the members of this committee must consider the cost to the people of this country that this legislation would entail as compared to the benefits to be derived from it.

One point that concerns us is that there is no limit provided, as I read the bill, for funds to implement this program. It would be open-ended as I read it.

We believe that the cost of administration alone for a program on this scale would be phenomenal. We have the Job Guarantee Office expanded, local training community job boards, a reservoir of public service and private employment projects, the Standby Job Corps and Community Public Service Work Reservoirs, all within each community.

In addition, section 5(d) provides for "special" assistance including but not limited to counseling, training, and, where necessary, transportation and migration assistance.

To actually employ and pay for all the people who show up at the Job Guarantee Office will cost an enormous sum in tax dollars.

The inflationary impact of this proposal cannot be overstated.

At a time when our Federal budget deficit is skyrocketing, the approach in H.R. 50 needs close and thoughtful re-examination. We note that the committee has made the control of inflation a priority item in section 3(c) of the revised bill.

Yet, we submit that the very nature and extent of the bill itself are not compatible with that goal. The net effect of the bill will be a rapid injection of money into the economy, creating a demand-pull inflation, at least in the short term, which will only exacerbate our economic situation.

There are inequalities in this legislation that cannot be overlooked. One of the most obvious is the bill's approach to compensation, which we believe clearly violates the principle of "equal pay for equal work."

The bill, as written, could, in effect, provide for vastly different rates of pay, based on prior work experience or even based on education.

This seems totally inequitable, and would create tensions on the job in addition to the strain on the economy. This pay differential would be established regardless of whether the individual's education or work background is relevant to the job in question, as we read the bill.

The task of effective administration would not only be prohibitive in cost but impossible from a practical point of view. The multiplicity of institutions called for to carry out the provisions of this bill is staggering and any coordination of this mammoth structure is almost unimaginable. We urge the committee to carefully reconsider the enormous administrative problems inherent in such a proposal.

We do subscribe to the need for public service jobs, but only when such a system is clearly thought out and constructed.

Public service job opportunities made available through existing channels, in addition to full use of the unemployment compensation system, present a far better alternative than the mammoth and unworkable system envisaged by this legislation.

This is not to say that the present system cannot be improved upon—but H.R. 50, we do not believe is the way to do it.

We believe that efforts should be directed primarily toward stimulating the productive capacity of industry and increasing employment opportunities in the private sector. There is a desperate need in our country today for industrial expansion and we need broader, more comprehensive training programs, especially in the private sector to improve the performance of those entering the labor force.

Such training programs should be geared especially toward upgrading the skills of women, teenagers, and minority groups who have in the past found it most difficult to find jobs.

Only through such an approach can we insure that a rise in our Nation's overall productivity will accompany an increase in numbers of people employed.

Let me close by reiterating our concern about the unemployment situation facing our Nation today. We do not want to be adversaries in the search for better ways to combat this problem.

More jobs mean increased buying power for industry's products. But we urge this committee to abandon consideration of this unworkable bill and to turn its attention instead to constructive proposals for improving our Nation's economic health.

THE MAKE-WORK ECONOMY

Escaping the toils of welfare dependency — by George Gilder

As THE AMERICAN ECONOMY enters a recession, there is always a boom in the business of saving or creating jobs. Unlike most enterprises, this business tends to be run by politicians, and thrives not on savings and investment but on taxation and talk. John Connally, the Presidential aspirant, for example, would protect the jobs of U.S. workers by reducing foreign trade and competition: "Let the Japanese sit on their docks in their Datsuns and watch their color TV sets themselves." The Carter Administration wants to create jobs by expanding the Comprehensive Employment and Training Act (CETA), which is already spending $12 billion annually, into a national program of guaranteed employment for all.

Politicians on all sides seek to save jobs by subsidizing Chrysler, and Connally would establish a federal come-and-get-it fund for all large and failing companies. Even such staunch conservative voices as *National Review* and columnist Patrick Buchanan, a former Nixon speechwriter, have demanded government action on behalf of the afflicted automobile firm. As Buchanan wrote: "This is a time for Republicans to rise above principle [and] leave Ralph Nader to mouth the moth-eaten clichés from Republican conventions of generations ago." Buchanan even went so far as to quote the dubious findings of the Congressional Budget Office, which predicts "the permanent loss of a quarter of a million jobs" if Chrysler melts down. "Those who preach economic principles to working people in unemployment lines," he huffed, in the spirit of George Meany, "generally receive the reception they deserve."

The country is moving toward a system like Great Britain's, in which business is flogged by government officials and regulators, until it proves itself innocent—and perhaps worthy of subsidies—by reason of failure and incompetence. Companies that can show only a modest level of ineptitude are compensated by exemption from the antitrust laws; and a catastrophic series of blunders, like Chrysler's, already resulting in layoffs and cutbacks of employment, may win for the company an award from Washington as a precious source of jobs.

America's governing class of officials and politicians, unlike the ancestors from whom many inherited wealth, are capable of little productivity, and seem deeply suspicious of anyone who can find work for himself without pull or pelf. Edward Kennedy, Jerry Brown, and Jimmy Carter, holders of tax-paid employment, sometimes seem to recoil in horror at the very idea of an unsubsidized job. Private-sector work, in general, is seen as bad for health and family: Farmworkers are woefully exploited; industrial workers are poisoned; secretaries are sent for coffee and Danish; assembly-line workers are made to perform repetitive tasks; telephone operators are denied the opportunity to climb poles. Technicians in

George Gilder is currently writing a book entitled Wealth and Poverty, which Basic Books will publish next year and from which the material for this essay is substantially drawn.

high-technology companies destroy the jobs of others. Workers in energy companies cause cancer and traffic jams. The eminent politicians feed on a considerable literature—produced in offices where there are leather couches, WATS lines, and expansive views of the East River—that defines most work outside of government as either predatory or degrading. A cottage industry has emerged, trafficking in reports, studies, conferences, seminars, lectures, brochures, videotapes, monographs, colloquia, documentary films, symposia, and photographic essays. The conclusions, as reported by the media, grimly denounce productive labor and predict the end of the world.

In fact, the employment generally acceptable in scholarly circles is that which does not produce anything—subsidized jobs. The identifying mark of these functions, apart from being well paid, is that they allow the jobholder to pretend he isn't in it for the money. As David O. Wilson of the *Boston Globe* writes:

> *Never mind that manufacturers of bologna, unleaded gasoline, and screwdrivers, grain farmers and real estate salespeople actually do more for their fellow human beings than any number of bureaucrats and teachers of sociology. . . . The new class members, their status fixed and enriched by tax exemptions, their tenures and civil service protections firmly emplaced, manage still to perpetuate the fiction that they are somehow more devoted to the public interest than the drivers of 18-wheel tractor trailers.*

Yet there is a sense in which people not in it for the money—people whose work does not yield a profit—do not have jobs at all. A more common term for what people do when they are spending money earned by others is consumption, and the usual word for what people do when they are not in it for the pay is *leisure*. Turning the consumption and leisure of subsidized or "created" jobs into activity lauded as idealistic and sacrificial public service—while at the same time disparaging the activities of the private sector as a grubby rat race—takes ingenuity and resourcefulness.

Some jobs are worth supporting. But all of them subsist on the productive labor of others. The proliferation of sinecures depends entirely on the enlargement of profits. The governing class, however, will do anything to conceal such realities. Its members wish to foster the illusion that entrepreneurship and labor are sustained by government. Every year uncountable millions of small-business jobs are destroyed indirectly by inflation, taxes, and misbegotten regulation, all blithely supported by large Congressional majorities. But let some big firm stagger, or complain of unfair foreign competition, and the bravest of Senators start talking about "saving" American jobs. Let a recession deepen, and the most dogged conservative begins to propose new government programs to create work.

These reactions are fully understandable. Who can oppose CETA job programs if they do anything at all to prevent the costly increases in dependency, crime, and family breakdown that are inevitable with unemployment? Who could object to government support for a firm like Chrysler when the alternative might be its purchase by foreign companies, themselves partly owned or heavily subsidized by government? Who can resist loan guarantees that obviate outlays of welfare and unemployment compensation estimated at $16 billion in the Chrysler case? Because the costs of letting a large firm fail are essentially measurable and obvious, while the costs of saving it are initially small—because federal job-creation programs always seem preferable to the tortures of joblessness—in every instance an analysis of evident costs and benefits will tend to favor action by government, whether for CETA or for Chrysler. But as productivity in U.S. industry declines, there arises the danger that all this job creation and development will result in an uncreative and undeveloping economy.

Featherbedding in Massachusetts

HAVING SPENT much of my life in New York and Massachusetts, I know these two states best. New York has already received much-deserved attention for its bureaucratic and financial excesses. But for the creation of meaningless work—from the social-science faculties in universities around Boston to the federally funded modern dancers of the Berkshires—Massachusetts is entirely without peer. Through the late 1970s, the Commonwealth led the nation in government job creation, and no less than 57 percent of the state's net job growth came from CETA. Here the federal government appeared to be creating jobs, and the state government fully collaborated. During the ten years after 1967, the Commonwealth's budget grew from $700 million to $4.3 billion, nearly tripling in real terms, while the population rose 5 percent.

Contrary to the widespread impression of a "Sunbelt" bias in the distribution of federal money, federal aid for the region rose steadily during this period. After several years of posturing by northeastern officials, the General

Accounting Office in 1977 finally made an analysis that confirmed the findings of Warren Brookes of the *Boston Herald* that the Northeast got back $1.06 for every tax dollar it sent to the federal government. Massachusetts—as might have been expected from the standing of its Representatives in Washington—received $1.68.

Throughout this decade of enlarging government in the region, Massachusetts remained one of the wealthiest states in the nation per capita, heavily middle class, highly educated, only 3 percent black, relatively exempt from the huge migrations from the South that allegedly account for the high welfare and CETA activities in other states. (In fact, the example of Massachusetts should permanently put to rest any notion that the nation's burdens of welfare and job creation have much to do with the special problems of race.) Moreover, as the home of the country's most prestigious private universities and as a center of advanced technology, the state seemed well situated to thrive even without this massive infusion of money from other parts of the land.

Yet Massachusetts did not thrive. Including all the government jobs, employment growth in the state has been less than half as rapid as in the rest of the country, only 60 percent as fast as the rest of New England, and throughout the late 1970s only 25 percent as fast as neighboring New Hampshire.* The prospects for the future are worse, at least for private employment. According to the First National Bank of Boston, the state suffered an acute decline in capital investment in the late 1970s. Although there has recently been a revival, led by the computer firms along Route 128, the general anti-business posture of the state tax system remains intact under Gov. Edward J. King. According to a 1977 study by *Fortune*, the Commonwealth ranked dead last among all the fifty states in its ability to attract new plants to locate within its borders.

Massachusetts ended the decade, however, ranked No. 1 in the country in welfare payments, welfare growth, welfare percentage of the state budget, welfare percentage of the state population, and CETA jobs per capita, and ranked high in both unemployment and unemployment compensation, with youth joblessness at close to 30 percent. Lest anyone worry, however, about these hapless souls without work, the average family income of the long-

*Those states with the smallest return flow of federal tax dollars, such as Ohio, Illinois, Indiana, and Iowa, have all performed far better than New York or Massachusetts. Illinois, with a liberal tradition near the equal of New York's, and with a proportion of blacks 25 percent greater than New York and five times greater than Massachusetts, received back just seventy cents per tax dollar for the entire decade.

term unemployed (fifteen weeks or longer) was $15,311 (not counting benefits). The state ranked high in the nation in unanswered advertisements for workers: companies all over listed manufacturing jobs, at 60 to 70 percent above the minimum wage, with the Department of Employment Security, only to be repeatedly informed that "there is no one suitable for your type of employment."

Government job creation and salvation has been proceeding for a decade in Massachusetts and other states: not only CETA programs and statewide subsidies for public-sector jobs but also state-level counterparts of the Chrysler approach. Sustaining the illusion that big companies are a prime source of new jobs, state officials often engage in an unseemly and self-defeating competition of blandishments for big business, giving them subsidies and tax exemptions, and even issuing bonds to construct their plants. Yet all the money to finance the make-work, and all the subsidies and exemptions for large firms, finally must be raised by increasing the tax burden on smaller businesses—on the source of new employment for the future. Job subsidies thus can end up destroying jobs. The paradox of job creation is that any job requiring a subsidy may diminish total employment by eroding the capital that is needed to create and sustain productive work.

The market in self-fulfillment

JOB CREATION is performed chiefly by individuals. Their supplies of work and human capital can engender their own demand. In Massachusetts, there emerged a generation of youth jaded by Vietnam and by a cultural scorn of business much like the upper-class English disdain for "trade." These attitudes fused in a demand for "meaningful jobs" uncontaminated by capitalism and devoted to working with people. It was not a slack or silent generation: there was fire in its eye and enterprise in its secret heart. But, disdaining business, there were few places for its energies to go but to the government.

And did they ever create jobs. It was a display of enterprise and resourcefulness reminiscent of the great epochs of business growth. It was not easy, for example, in a time of declining school-age population, to secure a 60 percent gain in educational spending—but they did, mostly in a bloated bureaucracy. The more important contribution, though, was to transform the very concept and structure of government service. In a synthesis of the varying elements of social work, Massachusetts created a chaotic universe of social healers and provocateurs. State mental-health services devolved to the communities, where they were transformed into bureaucracies of cultural arcana: "crime prevention" programs, special education, halfway houses, environmental outreach groups, encounter training, consumers' advocacy, and clearinghouses for alternative energy, nuclear protest, and solar worship. Urban revitalization would be accomplished by yoga, T-groups, instruction in community action and agitation for equal rights, family planning, sex education, abortion counseling, and child developing. Satellite agencies were established to cope with rape crises, battered wives, and food co-ops. And all these overlapping ministries were sheltered beneath the umbrella of a state social-service conglomerate led by higher-ranking activists pursuing equally amorphous duties. Lawyers were everywhere on hand, filing briefs and mustering class action. Neither the governor nor the legislature considered it politic—or even sane—to interfere. Among the primary beneficiaries of the general disarray were the public-service unions, which managed to negotiate contracts and pension plans as generous as New York City's.

The jobs that were created with such ingenuity and abandon, cajolery and lobbying, protest and pettifoggery, legal acumen and bureaucratic invention—all sufficient to launch a thousand businesses—turned out not to be jobs at all but seats at the trough, where the workers consumed their own human capital and the income of the state with every righteous assurance, at least some of the time, that they were serving the cause of social change and progress.

THE PRECIOUS RESOURCE of government was squandered woefully during this period. Like New York City, Massachusetts in the 1970s was a microcosm of Washington, which spread its riches into thousands of consultancies, commissions, and contract units, and created great satellite bureaucracies. In Washington, the impulse was toward job creation and enterprise. The purpose, most of the time, was to create employment, much as the government is attempting to save jobs at Chrysler today. The impulse is generous. But, alas, as every rich man knows, and the richest government in the world should learn, generosity is fraught with pitfalls. One trouble with government as "the employer of last resort" is that most government jobs, because of their special nature—which Vice-Presidential candidate Robert Dole characterized, in his pursuit of a prominent sinecure, as "indoor work with no heavy lifting"—are already becoming a first resort for all who wish to avoid the stresses of productive labor. Guaranteeing work turns out to be even more complicated—and more expensive—than guaranteeing incomes. It may indeed be impossible.

Work is what people will pay others to do because they find it unpleasant or difficult to do themselves. Because work is initially unappealing, it is done chiefly under the spur of a psychological or material necessity. The test of real work is usually the market: Is the job of such difficulty, unpleasantness, or importance that people will pay to have it done? Is the product sufficiently desirable or rare to command a profitable price as shown by the willingness of others to exchange their own work for it? These constraints, which are palpable in the very texture of the job, are what distinguish work from play or from make-work.

Most CETA jobs are not work, even though they are sometimes unpleasant. At present, one title of the bill provides so-called work experience for some 300,000 impoverished youths. But the youths themselves can sense the emptiness of it. The ones interviewed by Vocational Foundation, Inc. (VFI), called their time in the Neighborhood Youth Corps a "shuffle" and a "farce." "Mostly the kids just go to the park or the beach and mess around for their money," one job counselor said. "They get the idea that's a job."

In any event, the bulk of CETA jobs in the late 1970s went not to poor youths but to the middle class, who also wished to avoid work, in the name of self-expression, without the excuse of a prevailing welfare culture in their communities. In 1978, $8 billion of the money went to pay the salaries of white-collar and blue-collar municipal workers. In some cities, like Detroit and New York, many of the jobs were legitimate. The existence of the program allowed certain big-city mayors to avoid facing the difficult choices entailed by their exorbitant settlements and pension agreements with public-service unions.

Increasingly, however, as the CETA program matured, the ersatz poor began to twist it to their own ends. CETA money began to crop up in the most peculiar places, financing the efforts of radical filmmakers in Chicago, artists' collectives in Cambridge, and a modern-dance troupe in the Berkshires. Frazzled community organizers clambered aboard, along with gay-rights activists, compilers of redundantly dubious data, and protest-mobilizers against nuclear plants, all vaguely supervised by a large complement of employment counselors and job developers with heads full of regulations and figures.

What such jobs accomplish for many of their holders much of the time is to delay discovery of what a job is. Hundreds of thousands of Americans waste away the irretrievable years of their youths imagining that the world will long pay them to express themselves in a creative way, that a job is an excursion, in which you make movies or dance or agitate, or write empty letters for members of Congress. These youths are only partly to blame for their plight. Like welfare recipients, they often work hard and sacrifice much (more than they know) to acquire their sinecures. Far more at fault is the political order that fosters this self-destructive and socially erosive behavior—the adults who create these insidious systems of dependency and self-indulgence.

Job development or creation, it so happens, is something government only rarely does well. Distributing money it can do with great efficiency. But when the public grows resentful of welfare, Washington continues it in the guise of distributing work, which is more acceptable to the public, as well as more appealing to potential recipients. Thus the welfare state expands by offering more attractive packaging for its products. Beneath the surface it is the same old trap of dependency and demoralization, be it for the individual or the corporation.

"The paradox of job creation is that any job that requires a subsidy may diminish total employment. . . ."

Capitalizing on failure

JOB "guarantee" and "creation" programs deny the understanding that all jobs are to some extent created by the worker. Whether a bricklayer or a magazine editor, a janitor or an actress, a corporate executive or an assembly line worker, only the jobholder can finally guarantee the job, by the act of supplying labor, undergoing hardship, achieving distinction, engendering profit, however small, thus becoming part of the struggle by which human life improves itself. In this effort, obstacles, such as discrimination, early rejection, or even bankruptcy, often elicit higher achievement, impelling the worker to find or invent for himself a new task, or a new company. When Boeing teetered near collapse in the early 1970s and laid off thousands of workers, few observers saw that event as a boon for Seattle. Yet laid-off Boeing workers and technicians started scores of small businesses—from electronics firms and solar panel factories to an importer of specialty coffees for the entire West Coast.

Since World War II, the groups that have

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made the largest gains in American society are not the once-lordly white Anglo-Saxon Protestants, presumably free from discrimination and relatively beyond hardship. WASPs have been passed in per capita income by seven ethnic minorities, including the Jews, long victims of bias, the Japanese, interned in concentration camps in California during the war, and recent generations of blacks of West Indian heritage, who suffered all the presumed liabilities of discrimination in a white-dominated society. The groups that have done worst, like once-wealthy WASP families, have often been those who have had it easiest or those who were seduced by government into the dependency of the welfare culture.

Some of the greatest successes started with the least. For example, ten years ago a Lebanese family arrived in Lee, Massachusetts, with a few dollars and fewer words of English. The family invested the dollars in renting an abandoned shop beside the road on the edge of town, and started selling vegetables, rising at five every morning to drive slowly a ramshackle truck a hundred miles to farms in the Connecticut Valley, where they purchased the best goods they could find as cheaply as possible to sell that morning in Lee. It was a classic entrepreneurial performance—arbitrage, identifying price differentials in different markets, and exploiting them by labor. But because both the labor and the insight was little compensated, it was in a sense invisibly saved and invested in the store. All six children were sources of accumulating capital as they bustled about the place. The store remained open for long hours, cashed checks for locals, and began to build a clientele.

The secret was in the six children (who kept the family deep in the statistics of per capita poverty long after its arrival) and in the entrepreneurial vision of the owner, which eluded all the charts. Michael Zabian is the man's name, and he recently bought the biggest office building in the town, a three-story structure made of the same Lee marble as the Capitol. He owns a large men's clothing store at street level, and what amounts to a small shopping center at his original site; and he preens in three-piece suits in the publicity photos at the Chamber of Commerce.

As extraordinary as his decade of achievement may seem, though, two other Lebanese have performed similar marvels in the Berkshires and have opened competing shops in Lee. Other immigrants in areas of high nominal unemployment, Cubans in Miami, Portuguese in Providence and Newark, Koreans in Washington, Vietnamese in Los Angeles—to mention the more recent arrivals—have performed comparable feats of commerce, with little help from banks or government or the profession of economics.

A central truth of American history, from the frontier to the crucible of immigration in congested seaport cities, is that hardship, not affirmative action or government make-work, fosters character and achievement and creates new jobs. As always, hierarchies narrow as they approach the top, and big winners are as rare as geniuses. But despite the spiraling depredations of inflation and taxes, despite the mazes of regulation, despite burdens of government in many ways greater here than in any other capitalist country, opportunities in America are objectively as promising as ever. Not everyone can rise to chair a major corporation or write for the *New York Times*, but anyone who can overcome the prevailing spirit of gloom and escape the toils of welfare dependency can still hope to achieve a secure footing in the U.S. economy. It is the preoccupation with failure and decline, the obsession with poverty unrelieved by any comprehension of the sources of wealth—the increasingly shortsighted reliance on the state to preserve and create jobs by consuming our capital—that threatens the future of our society.

Some of the most effective job-creating wealth in America is "unearned." About the same time Michael Zabian arrived on our shores, Peter Sprague, now his Berkshire neighbor, inherited $400,000, largely from the sale of Sprague Electric Company, the family firm. Many heirs of similar legacies have managed to lose most of it in a decade or so. But Sprague set out on a risky course that could have lost him his money much faster. He decided to use his money to revitalize companies that faced bankruptcy and lacked funds.

In 1964, three years after successfully starting a chicken hatchery in Iran, Sprague moved in on a failing computer company called National Semiconductor, which had been negotiating for six months with an English firm. Sprague considered the situation for a week and then bought a controlling interest. He hired a computer genius named Charles Sporck to run the company, which is now a leader in the revolution in semiconductor technology and has been one of America's fastest-growing firms.

In the mid-Sixties Sprague bought several other companies, including the now-glamorous Energy Resources, and he temporarily rescued Design Research from near bankruptcy (it folded this year). In the early 1970s he went into a partnership in public relations with Don Weedon Associates, ran, unsuccessfully, for Congress, and saved several more companies, including Advent, now a big-screen television firm.

A sports car buff, in 1975 he indicated to some friends an interest in reviving Aston-Martin, which had gone out of business six months earlier. Arriving in England with a tentative plan to investigate the possibilities, he was besieged by reporters and television cameras. Headlines blared: MYSTERY YANKEE FINANCIER TO SAVE ASTON-MARTIN. Eventually he did, and the company now is securely profitable.

A governmental counterpart to Sprague's investment activity was Anthony Wedgwood Benn's National Enterprise Board in England, which spent $8 billion in an effort to save various British companies by drowning them in money. Before Sprague arrived in England, Benn had adamantly refused to invest in Aston-Martin, dismissing the venerable firm as a hopeless case and subsidizing instead forty other companies, most of which, unlike Aston-Martin, still lose money, and some of which ended up bankrupt, despite all the ministrations of government. Benn also turned down an opportunity to buy National Semiconductor for $4 million, and authorized $4.7 million in a scheme for a yet-undesigned luxury-car competitor for Aston-Martin. With his $100,000 inheritance and his considerable skills, Sprague has revived more companies and created more productive jobs than did Benn with the British Treasury.

> "A policy of subsidizing failures like Chrysler will end in an economy strewn with capital-guzzling industries long past their time of profitability."

An end to corporate welfare

A JOB GUARANTEE gives what cannot be given. It implies that everyone could diminish effort and slackly accept pay without causing the entire system to decay. In fact, as workers have demonstrated, in fields as diverse as air-traffic control and assembly-line labor, a resolve to follow precisely the book specifications of the job may bring a whole enterprise to a halt. Productivity studies indicate average variations of four-to-one in the efficiency of workers doing the same job for the same pay. If, under a regimen of guarantees like those that pertain to civil service, all workers merely performed at the minimal level, the U.S. standard of living would collapse. The essence of a job is the risk of being fired if the work is not performed. A guaranteed job implies that the work is mostly optional, and thus, like the average CETA slot, no real job at all.

The essence of productive work is that it is altruistic: it is done in response to the needs of others. Make-work, despite the claims of altruism by its advocates, is more often selfish. It is done to satisfy the worker rather than the market. The irony is that the holders of such jobs frequently resent their sinecures and shuffles of paperwork. Meanwhile, performers of hard productive labor can attain deep gratification from their jobs. By expanding the realm of subsidized work, the country undermines the morale of the entire work force.

The effect of subsidizing giant companies to save jobs is no better than creating or guaranteeing them through CETA. It is said that to save a firm like Chrysler is to *rise above principle*. That assertion is false. To save Chrysler is merely to establish a different principle: namely that major U.S. corporations, even if they serve no crucial public interest or national-security role, will not be allowed to fail.

That principle dictates an accelerating decline in American productivity and the surrender of U.S. leadership in the world economy. The possibility of failure is as important to capitalist enterprise as the opportunity to succeed. As the experience of the U.S. railroad industry, the Post Office Department, and the New York City public services all attest, access to the U.S Treasury cripples management in negotiating with unions. The resulting contracts consistently exceed productivity gains and thus erode the assets of any company until, at last, it fails, and must seek the support of government. A federal fund to subsidize failing companies is a self-fulfilling prophecy of company failure.

Extensive experience in Europe, moreover, demonstrates that once a company becomes a ward of the state it only rarely again becomes reliably profitable. Of the fourteen largest state-owned manufacturers in Western Europe, all of which benefit from numerous special advantages from government, only one, DSM, a chemical firm in the Netherlands, has earned a consistent return—and a modest one at that. Even Renault, the most celebrated example of nationalized success, has been a burden on the taxpayer. Indeed, as the *Harvard Business Review* has pointed out, the French auto firm's private-sector rival, Peugeot-Citroën, has paid as much in taxes to the government (1.8 billion French francs over the past five years) as Renault has received in subsidies (1.7 billion). In Italy and Great Britain, nationalized firms, afflicted with voracious unions, have caused grave budgetary crises. The U.S. bail-out of Lockheed will be a disaster if it is used as a precedent for f[illegible]ter government intervention. A policy of subsidizing failures like Chrysler will end in an economy strewn with capital-guzzling industries long past their time of profitability—old companies that cannot create new jobs themselves but can stand in the way of job creation.

It is small businesses, not firms like Chrysler, that generate most of the employment in America. During the past decade, businesses on *Fortune*'s list of the 1,000 largest companies have experienced virtually no job growth at all and have undergone a 36 percent decline in the real value of their equity. Meanwhile, between 1969 and 1976 smaller firms created 7.4 million new jobs, nearly four times as many as the government. A recent study for the Commerce Department showed that "young high-technology companies" have been growing in employment at a rate of 40 percent annually, about thirteen times faster than "mature firms." In addition, small firms provide more than 80 percent of the jobs for young blacks and other "disadvantaged" citizens.

Recent years have seen a boom in entrepreneurship in America, with the number of new incorporations rising from 93,000 in 1950 to 436,000 in 1977, accounting for the vast majority of new jobs during that period. Even unincorporated businesses have experienced greater gains in asset value during this period than have the leviathans. Last year's cut in capital-gains taxes, engineered by the late Rep. William Steiger of Wisconsin, has prompted a new surge in venture capital. Its vital center is south of San Francisco in Santa Clara County, the locus of America's most rapidly growing and dynamically creative new industry—the application of microprocessors, the computer on a silicon chip. Here in "Silicon Valley"—already the home of hundreds of companies—more than a hundred new firms have emerged in the past year alone and the pace of new business formations is still accelerating. These companies, with their ever-proliferating computer devices applicable throughout industry, represent a promethean technology, comparable to the steam engine and telephone of previous ages, that promises to launch at last the long-predicted computer age. On its heels are breakthroughs in microbiology, laser science, and other fields with only slightly smaller pr[illegible] in creating jobs.

This is how job creation actually occurs in the United States. Bailing out big corporations and contriving government sinecures is the opposite of this process. For growth to occur, there must be not "guarantees" for present employment patterns but tax cuts to aid the emerging industries of the future. The current configuration of jobs and industries, with its network of interest groups and political dependencies, is the shell through which must break the new firms that are the only reliable source of job growth. The attempt to cling to the obsolescent, in fear of the unknown, is the surest course of job destruction. □

Busy Doing Nothing: The Story of Government Job Creation

JAMES BOVARD

In 1961, when the unemployment rate was 5½ percent and skill shortages existed in a handful of fields, the federal government committed itself to pursuing a comprehensive manpower policy to train and employ the toiling masses. Twenty-two years later, the unemployment rate is almost twice as high, skill shortages still abound, and roughly five times as many workers are "structurally" or "long-term" unemployed. Yet, President Reagan recently signed another job training bill, and Congress is discussing proposals to put hundreds of thousands back to work doing nothing or a reasonable facsimile of same.

A 1979 *Washington Post* series concluded, "Incredibly, the government has kept no meaningful statistics on the effectiveness of these training programs—making the past 15 years' effort almost worthless in terms of learning what works."[1] Since 1964, the General Accounting Office (GAO) has almost annually revealed that government manpower programs reported successes are vastly exaggerated and that the use of dishonest statistical methods is camouflaging failure.

Government manpower efforts gave us Job Corps centers, which mainly redistributed crime to other neighborhoods; youth employment projects, which only taught kids how to nap; and CETA projects, which included building an artificial rock in Oregon, counting cats and dogs in California, and recruiting food stamp recipients in Florida. Politicians have been proclaiming their commitment to training workers for the private sector since 1961. Yet, bureaucrats have been perennially incapable of adjusting to private demand or meeting private standards.

Though training and job creation programs have often been separated in the statute books, Congress repeatedly blends the two, paying training allowances as high as regular salaries, and commanding make-work programs to prepare paycheck recipients for real work. The two facets have nicely complemented one another:

1. *Washington Post*, April 24, 1979

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as training programs failed, government created make-work jobs to busy the unemployed, and, as more people came to rely on a government paycheck in lieu of work, skills shortages multiplied, increasing the demand for government training programs.

The Birth of a Bad Idea

In 1933, Franklin D. Roosevelt decided that the best way to end the Depression was to raise taxes and pay the unemployed for attendance at public works projects. The government jobs program began comparatively slowly until, one afternoon in November 1933, Harry Hopkins suggested to FDR the idea of putting all the unemployed on the government payroll. The next morning, FDR announced plans to hire *en masse*, and within two weeks a million men were on the payroll.[2] The Civil Works Administration—essentially politicians banging on an economic tin pan—had four million workers by mid-January 1934; but FDR quickly became disillusioned with the high cost of the program and abolished it on March 31, 1934.[3] Government job creation programs were comparatively dormant the rest of the year, even though the unemployment rate was still over 20 percent.

In 1935, FDR began priming for the 1936 election and launched the Works Progress Administration (WPA), which paid over four million people in 1935. The WPA, popularly known as "We Poke Along," was exactly like CETA (Comprehensive Employment Training Act) in that the goal was to hire as many people as quickly as possible, resulting in projects like art classes for the insane. The WPA's main accomplishment was to give leaf raking a bad name. Despite billions of dollars of pump priming and millions of paycheck recipients, the economy remained depressed until World War II. There were more enrollees in federal work relief programs in 1938 than in any other year of the Depression. Unemployment was still at 17.2 percent in 1939—higher than it was in 1931, two years after the stock market crash.

The modern era of manpower law opened with the Area Redevelopment Act of 1961, a law based on the right of geographical areas to equal economic development, in spite of themselves. Critics reviled the law as a program to revive ghost towns.[4] The Area Redevelopment Administration (ARA) was established to direct

2. H. L. Mencken, *Chrestomathy*, p. 424.
3. Leuchtenberg, *Franklin D. Roosevelt and the New Deal*.
4. Oscar W. Cooley, *Paying Men Not to Work*, p. 23.

federal money and training funds to depressed areas, and was expected to play a serious role in achieving full employment. An early problem was lack of interest by the unemployed—many were not anxious to learn a new trade. Despite much ballyhoo, only 4,400 people had enrolled in ARA training programs by February 1962,[5] and enrollment never exceeded 12,000 a year—despite the fact that over five million were reported unemployed at the time the bill passed.

The Area Redevelopment Administration's goal was to "create jobs" and give training; but the GAO found that the agency typically overreported the number of jobs created by 128 percent,[6] did not use available information to evaluate the number of new jobs supposedly created,[7] and routinely gave millions of dollars to locales that no longer had high unemployment.[8] The ARA and its training program had no effect on reviving depressed areas. By 1965, the agency had so sufficiently defamed itself that its name was changed to the Economic Development Administration.

The 1961 Youth Employment Opportunities Act, the first of many congressional tributes to the effect of the minimum wage in disemploying young people, offered jobs to 21,800 youth in response to the "crisis" proportion of teenage unemployment (16.8 percent—compared to 24.5 percent in December 1982). This was followed by the Public Works Acceleration Act of 1962, which aimed to increase federal spending in depressed areas and to create more jobs for the unemployed. The Joint Economic Committee released a study on the new act, concluding ". . . our studies have led us to share the general view that such programs are likely to be too slow in starting and too late in ending."[9] Despite the program's ineffectiveness, Congress continually reauthorized the Public Works Acceleration Act, mainly because it was an excellent pork barrel.

In 1962, Congress passed the Manpower Development and Training Act (MDTA) to provide training for workers who lost their jobs due to automation and other technological developments. Like the Area Redevelopment Act, the MDTA was propelled not by any evidence of federal competence in training, but by the moral conviction that "government must do something now." In 1963, the

5. *Wall Street Journal*, February 16, 1964.
6. GAO, B-146910, June 3, 1964, p. i.
7. GAO, B-153449, May 3, 1965, p. i.
8. GAO, B-153449, June 25, 1964, p. i.
9. Economic Report of the President, 1962, p. 92.

program was expanded to offer training for youth and other officially certified disadvantaged people. Amor• occupations targeted for training were waiter, waitress, and disl vasher.

The MDTA was originally scheduled to be federally funded the first two years, with expenses split fifty-fifty with the states thereafter. But, by August 1963, only four state ad offered to divvy up their share, so Congress postponed the matching requirement. In 1965, Congress reduced the matching costs to 10 percent of training costs, and postponed its imposition until 1967. It is significant that, at a time when state and local governments were paying 95 percent of education costs, they refused to pay even 50 percent of manpower training costs.

The MDTA failed to help the disadvantaged significantly. In 1964, the GAO revealed that the Manpower Development and Training Administration was counting as permanently employed any trainee who was able to hold any job for a single day.[10] A 1978 Congressional Budget Office report on MDTA concluded, "... the impact of training on wage rates has been minimal: the wage rate increases of participants are not substantially different from those of nonparticipants."[11] One widely quoted study revealed that subsequent earnings declined the longer a person stayed in an MDTA training program.[12] A 1967 poll by Manpower Research Council found that 80 percent of the members of the American Society for Personnel Administration said, "The Federal government's manpower and training administration has not helped them find qualified employees; and the largest percent of this group said this was because training was given in the wrong skills."[13] A 1972 study funded by the Department of Labor concluded, "that at least for the period of time encompassed by the study, no significant impact upon skill shortages can be identified" from government training programs.[14]

The Job Corps

In 1964, in response to pressing political needs, Lyndon Johnson launched the War on Poverty, with the Job Corps as centerpiece. The Job Corps was intended to give poor youth the skills to raise

10. GAO, B-146879, April 30, 1964, p. i.
11. Congressional Budget Office, *CETA Reauthorization Issues*, p. 15.
12. Quoted in Dave O'Neill, *Federal Government and Manpower*.
13. *Congressional Record*, 1967, p. 25242.
14. O'Neill, p. 24.

themselves up to the middle class. LBJ proudly proclaimed, "The days of the dole are numbered." But most of the youths recruited for the Job Corps dropped out before their training was completed, and many of those who "graduated" gained little or nothing from their experience. Crime was rampant at Job Corps centers. Officials made little effort to discipline recruits, because of fear that they would quit and make the program look bad. In Kalamazoo, Michigan, Job Corps trainees rioted and damaged fourteen buildings; at Camp Atterbury, Indiana, seven boys were arrested for forced sodomy; at another camp, corps girls pelted police with bottles. Many localities tried to evict the training centers because of the increase in crime and violence that often accompanied them.[15] But leniency backfired: one of the four main reasons enlistees gave for quitting was "fear of bodily harm" from other Job Corps members.

In a major 1969 study, the GAO concluded, "Post Job Corps employment experience . . . has been disappointing."[16] Job Corps terminees did not do materially better than other eligible youth who had applied to enter the program and then chose not to participate. In FY 1968, the average cost per man-year of training was $8,300—roughly twice the tuition and living costs of a year at Harvard. Despite a big advertising campaign and kickbacks to recruiters, the Job Corps could not meet its 1968 recruitment goals. And of those who were enrolled, the GAO found that 22 percent were ineligible for one reason or another. Its results were no more impressive. Of 362 Corps members who left the program in 1967 and were reported to be employed immediately thereafter, a GAO survey one year after of reported employers found that 22 percent indicated that the Job Corps terminee had never worked for them. Of the remaining 282, 211, or 75 percent, had left their jobs. Only 71 of the 362 reported employed were still working at their first job. And only 25 percent of employed terminees were working in areas in which they had received training. The GAO found that one Job Corps center listed its terminees as employed solely by confirming that they had a job interview scheduled.

In 1979, the GAO reported that the Job Corps was still failing, and still masking its failure with statistical buncombe.[17] For the mid-1970s, the Corps claimed a placement rate of 90 percent of

15. *Congressional Record*, 1966, p. 25123 +
16. GAO, *Review of Economic Opportunity Programs*, March 18, 1969 p. 8 + .
17. GAO, *Job Corps Should Strengthen Eligibility Requirement. and Fully Disclose Performance*, 1979, p. 3 +

terminees; but the GAO found that, for 1975, "only 36% of those youths who had been in Job Corps at least 30 days were placed." For 1972 Job Corps participants, those who dropped out after thirty days or less earned more on the average in 1976 ($2,027) than those who stayed in between one and six months ($1,896).

The Job Corps is a typical government training program, in that it selects training on the basis of ease of administration, rather than the enrollee's aptitudes and interests or the demands of the labor market. At rural centers, job training is often subordinated to the government's desire to have menial conservation work performed. The GAO observed in 1979, "Assignment of a center is mainly based on center openings and proximity to the youth's home ...at a minimum, youth's interest should be considered in making assignments."[18]

The Neighborhood Youth Corps was begun in 1965 to give poor urban kids "meaningful" work experience and to encourage them not to drop out of school. But as the GAO reported time and time again,[19] the program has had no effect on dropout rates and has not prevented a vast increase in youth crime rates. Nor has the program provided much experience of the type commonly associated with the word "work." As columnist William Raspberry commented, "... we are raising a generation of kids who don't know what work is."[20] Mr. Raspberry blamed government summer job programs as a major source of the kids' illusions. A 1977 GAO report concluded that at 20 to 75 percent of the work stations in four cities, young people had nothing to do, were simply playing games, or were absent. Yet, workers who did not show were paid the same as those who did.

The Washington, D.C. Summer Jobs Program is a typical program and has provided sustenance for many investigative journalists over the years. In 1979, the program was launched with the usual fanfare and great expectations. But the city government could not get coordinated: some companies that requested 24 workers were only sent 2, and another organization that had not requested any was sent 140 teenagers. Many workers were not

18. *Ibid.*, p. 17.
19. GAO, *Review of Economic Opportunity Programs*, 1969; *Effectiveness and Management of the Neighborhood Youth Corps Summer Program in the Washington Metropolitan Areas*, and *Federal Manpower Training Programs—GAO Conclusions and Observations*, 1972; *Information on the Summer Youth Program* 1977
20. *Washington Post*, December 2, 1977.

paid on time, and many were paid the wrong amount. "Asked what job skills and work habits he is developing this summer at the Banneker Center, Robert Williams, 16, of Southeast, said, 'Nothing but how to make a dollar.' "[21]

By July 31, 1979, the *Washington Post*, the biggest promoter of the program early in the summer, conceded: "After all the high-level, hurry-up help that went into Mayor Barry's ambitious effort to find summer jobs for youth of this city, the program is in shambles.... Kids' ... perception of the workplace can be needlessly warped by sloppy management—it sets a terrible example."[22] And on October 18, in an obituary, the *Post* concluded, "The lesson they [teenagers] have taken away from the summer jobs program cannot be anything but negative."[23] (The 1980 D.C. Summer Jobs Program was again characterized by bureaucratic foul-ups, no-show workers, and late pay. But it also had good intentions.) Of those programs in 1979, Senator Lawton Chiles complained that youth "get such a strong message of cynicism and corruption that it cannot fail to carry over into their attitudes about work, crime, and society."[24] And, while the Labor Department ran several programs to bribe youth to stay in school, the Job Corps openly enticed them to quit and get job training and a General Equivalency Degree at government expense—and with an allowance.[25]

The Emergency Employment Act (EEA) of 1971 sought to reduce unemployment by increasing the number of local and state government employees. The EEA program, which consumed $3 to 4 billion before it ended in 1974, was created in response to the unacceptable high unemployment rate of 6 percent, and was also designed to relieve hard-pressed local and state governments. But by the time the program got rolling in 1972, the economy was booming, and local and state governments had a $12-billion revenue surplus. In some places, such as New York City, EEA created no new jobs, as the city government simply rehired laid-off employees. Overall, only 24 percent of people hired under this program were permanently retained.[26]

21. *Ibid.*, July 29, 1979.
22. *Ibid.*, July 31, 1979.
23. *Ibid.*, October 18, 1979.
24. *Fortune*, April 1979.
25. GAO, *Job Corps Should Strengthen Eligibility Requirements and Fully Disclose Performance*, p. 16.
26. GAO, *Public Employment Programs in Selected Rural and Urban Areas*, p. 34.

The Inherent Goodness of Government Spending

Finally, in 1973, in response to a confusing hodgepodge of training and employment programs, Congress passed the Comprehensive Employment and Training Act. In the preface to the new law, Congress conceded, "It has been impossible to develop rational priorities" in job training. This was borne out by experience. CETA spent over $60 billion training and employing over 6 million people; but the unemployment rate is higher than when it started.

CETA began as both a training and employment program, but the job creation aspect became dominant during the 1974–76 recession. Jimmy Carter came into office in 1977, and, though the recession was over, he ordered the creation of 350,000 additional public service jobs by year's end. Local government officials complained to Congress that the Labor Department was pressuring them to hire more people than they wanted to or could; Labor Department officials threatened to withdraw all funds if localities did not spend "another million by Friday." CETA was justified solely by faith in the inherent goodness of government spending.

CETA spent $30,000 to build an artificial rock for rock climbers to practice on and $640,000 to provide education about gay lifestyles; CETA gave $500 a month to a communist agitator in Atlanta, in his words, to "organize for demonstration and confrontation"; and CETA paid for a nude sculpture class in Miami where aspiring artists practiced braille reading on each other.[27]

Waste, fraud, and political patronage abounded. In Philadelphia, thirty-three Democratic Party committeemen or their relatives were put on the payroll; "an unemployed person living in a pro-[Mayor] Rizzo ward had 'almost twice as good a chance' to get a CETA job as a resident of an anti-Rizzo ward," according to the *Washington Post*.[28] In Chicago, the Daley machine required CETA job applicants to have referral letters from their ward committeemen, and left applications without such referrals piled under tables in unopened mail sacks.[29] In Washington, D.C., almost half of the city council staff was on the CETA rolls.

Though CETA was intended to create new jobs, many cities simply laid off and rehired their old employees. The city of East St. Louis had almost two-thirds of its work force on the CETA pay-

27. *Reader's Digest*, "CETA: $11 Billion Boondoggle," August 1978, pp. 72-76.
28. *Washington Post*, July 1, 1975.
29. *Congressional Record*, 1978, p. 24816.

roll;[30] San Diego and Miami had 47 percent of its work force on the CETA rolls; and nationwide, 16 percent of the average municipality's work force were on the CETA rolls in 1978.[31]

In Arizona, CETA paid college students to train for a track meet; in Bath County, Virginia, CETA paid county employees to attend dance classes; and in Chicago, a CETA worker reported that she was paid for "playing checkers" with other employees. In Brooklyn, CETA workers used a printing apprentice program to open a $5 and $10 bill business; but the poor quality of their work soon had them training on license plates instead.[32]

CETA was used to increase demand for government services. In Florida, CETA recruits went door-to-door trying to persuade people to sign up for food stamps. In Maryland, CETA workers offered free rides to the welfare office. In New York, CETA workers ran a phone service to inform people what unemployment compensation benefits they were entitled to.[33]

At one point, CETA was paying over 10,000 artists and spent over $175 million on art projects. This was not because CETA expected a big jump in the number of artists demanded by the market or because any inadequacy was identified in existing methods of artist training. CETA spent millions on the arts simply because it thought the arts were a nice thing, and people should have more of them, whether they liked it or not. In Montgomery County, Maryland, the richest county in the country, CETA paid nine women $145 a week to attend ballet school. In Poughskeepsie, New York, CETA workers busied themselves attaching fake doors to old buildings to beautify the city.[34] In Seattle, CETA paid fourteen homosexuals and lesbians to produce a play entitled "Lavender Horizons."[35]

The Least Service at the Greatest Cost

CETA showed a genius for providing the least service at the greatest cost. In many places, CETA workers maintained vegetable gardens for the elderly—thus achieving about 2 percent of the labor productivity of a real farmer in Kansas. Other cities used CETA funds to hire "phone pals" for the elderly, thus federally subsidizing idle gossip.

30. *Reader's Digest*, August 1978, pp. 72-76.
31. *Inquiry*, "Tales From the CETA Crypt," August 3, 1978, pp. 8 +
32. *Ibid.*
33. *Ibid.*
34. *Ibid.*
35. *Conservative Digest*, "Angry Al," November 1982.

CETA allowed local governments to subsidize CETA wages so that many "trainees" were being paid $20,000 per year. James Kilpatrick reported that fifty-six CETA recruits "averaged $18,000 a year for jobs that paid only $8,751 in other government agencies."[36] By paying high wages for easy work, CETA caused an artificial shortage of low-wage labor in many cities and artificially inflated wage levels in other places. As Dr. James Howell, chief economist for the First National Bank of Boston said, "The CETA program is actually making it more difficult than ever for business to operate in the central city."[37]

CETA's training element was largely lost in the mad rush to dent the unemployment rate. But even here CETA failed. CETA "created" 425,000 jobs in 1977; but at least half of those were simply "displacements"—positions that state and local governments would have funded anyway. By contrast, in November 1977 alone, the private sector created 440,000 real jobs—and would have created even more if taxes had not been so high to support make-work boondoggles.

In 1978, Congress amended CETA to place more stress on the employability of CETA "graduates" in unsubsidized work. The result: from 1978 to 1980, CETA's placement rate in unsubsidized work fell from 42 percent to 37 percent.[38] In 1982, when CETA was winding down, the GAO found that 50 percent of laid-off CETA workers were unemployed, and 55 percent of those were receiving one or more forms of government handouts. Only 25 percent had permanent, full-time jobs, subsidized or otherwise.[39] Overall, only 14 percent of CETA recruits were able to find unsubsidized work in the private sector. The amazing thing about CETA's dismal placement rate is that 75 percent of its recruits were high school or college graduates, and thus could have been expected to do much better on their own in the labor market.

In 1978, the GAO reported that many CETA participants "received training for which they were neither academically nor physically prepared, received training in low-demand occupations and received jobs which labor market surveys forecasted as surplus or low demand occupations, and received training that did not pro-

36. *Washington Star*, August 8, 1978.
37. *Congressional Record*, 1978, p. 27043.
38. GAO, *Labor Should Make Sure CETA Programs Have Effective Employability Development Systems*, p. 11.
39. GAO, *Implementation of the Phaseout of CETA Public Service Jobs*, p. 1.

vide them with skills needed to do the job."[40] In 1979, GAO did a follow-up report and found that many CETA trainees "remained in their 'temporary' Public Service Employment jobs for several years, and . . . received no formal training either related or unrelated to their jobs."[41] The Commission on Federal Paperwork reported that "the choice of job categories for which training is provided often is haphazard. People are trained for job opportunities that do not exist. . . ."[42]

Federal employment and training programs have been perpetually unmanageable. In 1967, over thirty different programs existed, and Congress attempted to resolve the confusion by creating the Concentrated Employment Program—to no avail. A 1973 GAO report on the District of Columbia manpower program found seventeen different agencies with ninety-one different programs, with no coordination. The GAO concluded that "no one knows how many people are being trained, for what occupations they are being trained, or the impact of training on the demand for skilled workers."[43] The National Council on Employment Policy did a follow-up study and found, "It was impossible to track individual trainees through the system; information on the potential labor market was inadequate; the management system was 'bloated' with salaried staff."[44] Congress passed CETA to end the chaos. But a 1979 GAO report found forty-four different employment and training programs in the Tidewater Virginia area with extensive duplication and competition. The GAO observed that "the proliferation of programs in the Tidewater area makes evaluating the overall results of federally assisted efforts very difficult, if not impossible."[45] The GAO found that only 22 percent of those hired from the Tidewater programs managed to retain their jobs.

The federal government currently has twenty-two different training programs, with varying degrees of failure and notoriety.

40. GAO, *Job Training Programs Need More Effective Management*, p. 41.

41. GAO, *Moving Participants from Public Service Employment Programs into Unsubsidized Jobs Needs More Attention*, p. ii.

42. Commission on Federal Paperwork, *Employment and Training Programs*, p. 26.

43. GAO, *Study in Federal Programs for Manpower Services for the Disadvantaged in the District of Columbia*, January 30, 1973.

44. *Washington Post*, June 3, 1977.

45. GAO, *Federally Assisted Employment and Training: A Myriad of Programs Should Be Simplified*, p. i–iii.

About the only kind of training program that has not completely shamed itself is on-the-job training. And, even here, 62 percent of OTJ trainees were no longer working with the employer they trained under six months after training ended in 1978.[46] The Federal government has paid many companies to provide OTJ training which they intended to provide regardless. A recent study by the American Enterprise Institute found that the "1967 revisions of the minimum wage law reduced the value of OTJ training for young white males by some 26 percent to 31 percent, reflected as reduced earning power in 1969."[47] The higher the minimum wage is set, the less employers can afford to offer training and still make a profit. If not for the minimum wage, workers could exchange less pay for more training, and the process would be far more efficient and cheaper without government intervention or subsidies.

Federal job training has either tended to be unsuccessful or unnecessary—either failing to achieve its ends or paying to have done what would have been done without a subsidy. As the government share of job training costs increases, job training will become more what government wants and less what businesses and individuals need.

Job Creation in Theory

At best, government can, through taxation, transfer jobs from the private to the public sector. If CETA had not been devouring $10 billion a year in the late 1970s, up to a million additional entry level jobs could have been created in the private sector. And these jobs would have produced enough to perpetuate themselves, rather than being perpetually dependent on the latest continuing resolution. If CETA had never existed, more Americans would be employed today, and our standard of living would be higher. Economist George E. Johnson, writing in the Brookings Institute study *Creating Jobs*, estimated that the Gross National Product lost 34 cents in the long term for every dollar spent on public service employment job creation.[48]

It is almost never a simple choice of paying people unemployment compensation or hiring them as public service employees. The difference is one of getting no value at a low price or getting minimal or no value at a high price. Congress usually insists on

46. GAO, *Job Training Programs Need More Effective Management*, p. 23.
47. Masanori Hashimoto, *Minimum Wages and On the Job Training*, p. 52.
48. *Creating Jobs*, ed. by John L. Palmer, pp. 135–144.

"prevailing wage" for make-work positions—but this actually works out to be much more than private compensation because the government employees do not work nearly as hard. With unemployment compensation, recipients were limited to twenty-six weeks; with CETA, a two-year hitch was common, often followed by an indefinite period on other doles. Liberals say that anything is better than unemployment; but if the "solution" is something that delays the person's return to a productive job, then society loses doubly—first by having to pay for an unproductive worker, and again by being denied potential productivity.

Every public job creation program either forces minimum wage workers in the private sector to subsidize high-paying, make-work positions or offers a subsidy for low-skill or unskilled labor. Insofar as government subsidizes unskilled labor, it increases the demand for it, which results in an increase in the number of unskilled laborers and a decrease in the number of people who invest the time, effort, and money to become skilled. By constantly raising the minimum wage, government has continually narrowed the differential between skilled and unskilled labor, thus discouraging people from investing in themselves. Government is willing to do everything to encourage people to become skilled, except allow them a decent incentive.

Job creation and training programs have also fared badly overseas. A recent survey by the *Economist* found that 74 percent of Britain's unemployed felt that government training programs had done them little or no good.[49] Britain began a Job Creation Program (JCP) in 1975 to reduce unemployment and increase training; but, after leaving the program, only one-third of the workers got jobs, and 56 percent registered as unemployed.[50]

Many Western countries began public job programs during the 1974–76 recession, but nowhere have the programs made a decisive impact on unemployment. In Canada, two programs created roughly 100,000 jobs, but this still left 800,000 others out of work. In Denmark, the Public Employment Program created 2,800 jobs in 1976–77, but this helped only 3 percent of the unemployed. In Britain, the JCP had 49,000 job positions, equivalent to about 4 percent of the country's unemployed.[51] CETA, even at its most

49. *Economist*, December 4, 1982.
50. Organization for Economic Cooperation and Development, *Direct Job Creation in the Public Sector*, p. 21.
51. *Ibid.*, p. 15.

overfed state, never exceeded more than 10 percent of the number of unemployed. FDR's gargantuan payroll creation campaigns never accounted for more than a third of the unemployed during the Great Depression.

Job creation programs never do more than make a small dent in unemployment rates at great cost. Even the claims for the number of jobs created are illusory. Economist Alan Fechter estimated in 1975 that, in the long run, between 60 and 90 percent of PSE positions simply displaced positions that would have been created or maintained by state or local governments.[52]

Public job creation is firmly based on Keynesian economics— on the theory that government can spend the people rich. During the 1930s, administrators competed to see who could hire the most people to do the least work. A Labor Department publication suggested using CETA workers for "labor intensive snow removal," Peking style. Liberals routinely justify job creation by claiming that it will increase purchasing power; but to take a dollar from a private pocket and put it in a public pocket does not increase purchasing power—it only increases the chances of the dollar being misspent.

The Grand Illusion

The illusion underlying faith in government job creation is that it only counts—or is somehow better—if government does it. Chief economic adviser Martin Feldstein explained to a congressional committee that the recently increased gas tax would destroy more jobs than it created, because it would take money out of the private sector and give it to high paid union construction employees. Yet, the nation's press for the most part refused to recognize this elementary fact, and continued praising Congress for "doing something" about unemployment.

Government can create a job only by destroying the private sector's ability to create jobs. There is a finite amount of capital, and what government uses to endow leaf-rakers cannot be used by businessmen to hire productive workers. Government job creation almost always assumes that the wages for the make-work positions will come out of thin air—that government can increase taxes by five billion dollars or depreciate the currency with no effect on the private sector. But as long as one remembers that taxes and inflation have effects, faith in government job creation is impossible.

52. Alan Fechter, *Public Employment Programs*, p. 19.

President Reagan, when he recently signed the $3 billion Job Training Partnership Act (JTPA), promised the new program would not be a "make-work, dead-end, bureaucratic boondoggle." But a close look at the new law shows that it is firmly in the tradition of federal manpower follies. The JTPA perpetuates the Job Corps, despite that program's remorseful history. The JTPA authorizes the continuation of summer youth employment programs, perhaps the deadliest enemy of teenagers' work ethic. In the remaining hodgepodge, the JTPA even authorizes a special program to help federal contractors meet affirmative action requirements. JTPA requires local programs to spend at least 40 percent of their funds on persons aged 16-21; this is a measly consolation for the Reagan administration's failure of nerve in pushing for a subminimum wage for youth.

The Chamber of Commerce, National Association of Manufacturers, and National Alliance of Business are promoting JTPA as a "great partnership." But the main reason business lobbies are keen on the new bill is that it is largely a subsidy for business. JTPA will allow local Private Industry Councils (PIC)—which are required to have a majority membership of businessmen—to use federal money to pay for training in council members' firms, thus saving them millions of dollars they would otherwise have to spend. The PICs will likely be composed of established businessmen from larger businesses, who will use the training subsidies to gain an additional edge over small, struggling businesses. If the law actually sought to maximize benefits to the unskilled, it would provide vouchers to individuals, rather than unlimited discretion to businesses.

Many, if not most, of the poor, disadvantaged, and college graduate trainees and make-work paycheck recipients would be better off now if the federal programs had never existed. Aside from the waste of scores of billions of dollars, government manpower programs distorted people's lives and careers by making false promises, leading them to believe that a year or two in this or that program was the key to the future. Especially with CETA, people spent valuable time in positions that gave them nothing more than a paycheck, while they could have been developing real skills in private jobs with a future. *A mistrained person is worse off than an untrained person who knows he still must acquire a skill.*

If the goal is to create jobs, the most expedient policy would be to require government welfare recipients to work in return for their benefits—what is sometimes called workfare. If unemployment compensation recipients were required to work twenty hours a week for the government, the nation could create over four million jobs overnight, and repair an awful lot of railroad beds. Or if Congress refuses to do that, the least it could do, it could change the name of unemployment compensation to government employee training stipend, and order all recipients to stay at home twiddling their thumbs eight hours a day.

The answer to unemployment and low skills is not to camouflage the problem and reduce investment, which every job creation program proposes, but to reduce the government-imposed impediments and disincentives to the development and exchange of labor. Government restrictions on hiring youth and paying minimum wages make it unprofitable for business to hire millions of low-skilled people. Government economic policies that disrupt the economy with inflation and credit squeezes prevent the accumulation of capital necessary to start or expand businesses. Government payments of high welfare, food stamp, and unemployment compensation benefits make it more profitable for many people to go on the dole, rather than accept low-paying work. And government-incited trade wars with foreign countries, such as the bill to require domestic content in American automobiles, are guaranteed to decrease the total amount of trade, and thus reduce the total number of jobs. If government had not first crippled the labor market, it is unlikely that government make-work and training programs would ever have received widespread support. The answer is not for government to spend another $50 billion futilely attempting to cure a problem it caused, but to stop causing the problem in the first place.

In short, there is no substitute for prosperity. Any government scheme to train or employ the masses must first be measured by the question: What effect will the increased taxation necessary to finance the program have on the economy—on the total number of productive, self-supporting jobs? Where there is a real job, there is a real incentive to train someone for the job. In the long run, every make-work program destroys more jobs than it creates, because it squanders the capital that is necessary to support all jobs.

SELECTED ADDITIONAL READINGS

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Gilder, George. Wealth and poverty. New York, Basic Books, Inc., 1981. 306 p.

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Levitan, Sar A., and Clifford M. Johnson. Beyond the safety net: reviving the promise of opportunity in America. Cambridge, Ballinger Publishing Co., 1984. 200 p.

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Schwarz, John E. America's hidden success: a reassessment of twenty years of public policy. New York, Norton, 1983. 208 p.

U.S. Congress. House. Committee on Ways and Means. Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation. Background materials on poverty. Washington, U.S. Govt. Print. Off., 1983. 163 p. (98th Congress, 1st session, WMCP 98-15, Oct. 17, 1983)

A GUIDE TO INFORMATION SOURCES
on the 1984-1985
High School Debate Topic

INTRODUCTION

This research guide identifies sources of information about public welfare, poverty, and related topics that will be discussed by high school debaters. The guide describes indexes and other research tools, and provides appropriate search terms that might be used when consulting these tools.

The guide is divided into two parts. The first part describes basic research sources and lists the search terms which can be used when examining these tools. The second part describes specialized poverty and public welfare reference sources.

Search terms, which may be used seperately or in combination, are provided for each resolution of the debate topic.

I. That the Federal Government should guarantee a minimum annual cash income to all United States citizens.
(PUBLIC WELFARE)

II. That the Federal Government should adopt a negative income tax to assist all United States citizens living in poverty.
(NEGATIVE INCOME TAX)

III. That the Federal Government should provide employment for all employable United States citizens living in poverty.
(EMPLOYMENT)

Throughout the guide, the resolutions are referred to in the abbreviated form listed in parenthesis above.

The search terms listed for each of the topics are not exhaustive. The primary terms are included to help the high school debater begin his search for materials on these topics.

by
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Senior Bibliographer, Education and Public Welfare
Library Services Division

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RESEARCH SOURCES

This is a listing of research tools described in this guide, listing pages where each is mentioned.

American Statistics Index 8
Bell & Howell Newspaper Indexes 6
Business Periodicals Index 3
CIS Index 5
Congressional Index 4
Congressional Quarterly Weekly Report 4
Congressional Record 3
Current Law Index 7
Digest of Public General Bills and Resolutions 4
Index to Legal Periodicals 7
Legal Resource Index 8
Library of Congress Subject Headings 1
Magazine Index 1
Major Legislation of the Congress 5
Monthly Catalog of United States Government Publications 5
National Journal 4
National Newspaper Index 6
New York Times Index 6
Newsearch 7
NEXIS 7
Official Washington Post Index 6
Public Affairs Information Service Bulletin 2
Reader's Guide to Periodical Literature 2
Social Sciences Citation Index 9
Social Science Index 3
Sociological Abstracts 9
Statistical Reference Index 8
Weekly Compilation of Presidential Documents 5

References to data bases commercially available would include such sources as DIALOG, ORBIT, and BRS.

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PART I: GENERAL REFERENCE SOURCES

BOOKS

Library of Congress subject headings are used in many catalogs nationwide. This partial listing of subject headings may be used to identify books in the Library of Congress catalog and other library catalogs on public welfare and poverty.

GENERAL:	Poor Poverty Homelessness Poverty research Rural poor
PUBLIC WELFARE:	Public welfare Food relief, American Old age assistance Supplemental security income program Transfer payments Welfare fraud Welfare recipients Public welfare administration Federal aid to public welfare Transients, Relief of Economic assistance, Domestic
NEGATIVE INCOME TAX:	Income maintenance programs Family allowances Guaranteed annual income Negative income tax
EMPLOYMENT:	Unemployed Public service employment Economic assistance, Domestic Full employment policies Public works Hard-core unemployed

JOURNAL ARTICLES

Citations to journal articles and other materials about public welfare and poverty can be found in a number of printed indexes and online bibliographic data bases. The materials covered by the printed indexes are briefly described here and the appropriate search terms are also listed.

Online bibliographic data bases enable the researcher to locate citations to journal articles and other materials quickly by using a computer terminal to search a machine-readable file. Online data bases allow the researcher to combine search terms in ways that are impossible in a printed index or library catalog and to simultaneously search material that would be contained in printed index volumes covering several years. The availability of various indexes online is indicated in the description of the tools.

> MAGAZINE INDEX (microfilm)

Magazine Index provides citations to materials in over 370 popular magazines, focusing on coverage of current affairs, leisure time activities, arts, sports, and science and technology. The Index is available online commercially.

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GENERAL:	Poverty Homelessness Poor Rural poor
PUBLIC WELFARE:	Public welfare Social service Transfer payments Welfare fraud Welfare recipients
NEGATIVE INCOME TAX:	Guaranteed annual income Income maintenance programs Negative income tax
EMPLOYMENT:	Occupational training Full employment policies Public service employment Unemployed

> PUBLIC AFFAIRS INFORMATION SERVICE BULLETIN (PAIS)

PAIS is a subject index of books, pamphlets, government publications, reports of public and private agencies, and periodical articles relating to economic and social conditions, public administration, and international relations. PAIS is available online commercially.

GENERAL:	Poor Homeless persons Poverty
PUBLIC WELFARE:	Public welfare Poverty--Relief measures Transfer payments
NEGATIVE INCOME TAX:	Family allowances Income--Guaranteed income
EMPLOYMENT:	Hard-core unemployed Unemployment--Relief measures Employment--Youth Work relief

> READER'S GUIDE TO PERIODICAL LITERATURE

The Reader's Guide is an author/subject index to periodicals of general interest published in the U.S.

GENERAL:	Poor Homelessness
PUBLIC WELFARE:	Public welfare Old age assistance
NEGATIVE INCOME TAX:	Wages--Annual wage Income
EMPLOYMENT:	Unemployment--Relief measures Public works--Federal aid Employment--Statistics Youth--Employment

> BUSINESS PERIODICALS INDEX

Business Periodicals Index is a subject index to articles appearing in English language business periodicals. The Index is issued monthly and cumulated quarterly and annually.

GENERAL:	Poor Poverty
PUBLIC WELFARE:	Public welfare
NEGATIVE INCOME TAX:	Negative income tax Income maintenance programs Family allowances
EMPLOYMENT:	Unemployment--Relief measures Full employment policies Hard-core unemployed Job Corps Youth--employment

> SOCIAL SCIENCES INDEX

Social Sciences Index is a cumulative index to English language periodicals in the fields of political science, public administration, sociology, and other social science subjects. The Index is published quarterly with a bound cumulation issued each year.

GENERAL:	Poor Poverty Rural poor
PUBLIC WELFARE:	Public welfare Welfare recipients Old age assistance Transfer payments
NEGATIVE INCOME TAX:	Income maintenance programs Negative income tax
EMPLOYMENT:	Unemployed--Relief measures Work relief Comprehensive employment and training act Youth--Employment Public employment Full employment policies

LEGISLATIVE INFORMATION

Congressional activities on public welfare and poverty issues may be monitored by searching the following printed publications.

> CONGRESSIONAL RECORD

The Congressional Record provides an edited transcript of the activities on the floor of the House and the Senate. It is published each day Congress is in session. Subject and name indexes are published biweekly and cumulated annually. Terms to be searched are "Poverty", "Welfare", "Comprehensive Employment and Training Act", and "Employment".

> CONGRESSIONAL QUARTERLY WEEKLY REPORT

Congressional Quarterly Weekly Report provides current information on Congressional activities, the progress of major bills, and background information on major policy issues. Important recent articles are indexed on the back cover of each issue. Consult this index under the heading "Health/Education/Welfare". A quarterly and an annual index are also issued. Congressional Quarterly also publishes an annual publication which cumulates material appearing in the weekly reports during a year. This publication is entitled CQ Almanac. Congressional Quarterly Weekly Report is available online through the NEXIS library.

GENERAL:	Poverty
PUBLIC WELFARE:	Welfare and social service
NEGATIVE INCOME TAX:	Guaranteed income
EMPLOYMENT:	Employment and unemployment Employment and training programs

> NATIONAL JOURNAL

National Journal provides information on important executive branch and congressional actions. In addition to the annual index, the back cover of each issue also contains a brief index to recent articles. Consult this index under the headings "Income Security" or "Employment".

GENERAL:	Poverty
PUBLIC WELFARE:	Welfare Welfare and poverty
NEGATIVE INCOME TAX:	Welfare
EMPLOYMENT:	Employment Employment and labor

Bills and Resolutions

> CONGRESSIONAL INDEX

The Congressional Index, published by the Commerce Clearing House, is a weekly looseleaf service which provides content and status information for bills and resolutions pending in Congress. The progress of bills and resolutions is reported from the introduction of the legislation to the final disposition. Terms to be searched in this index are "Social services" and "Employment".

> DIGEST OF PUBLIC GENERAL BILLS AND RESOLUTIONS

The Digest summarizes the essential features of public bills and resolutions and changes made in them during the legislative process. The Digest is published during each session of Congress in two cumulative issues and a final issue at the conclusion of the session. The Digest has sponsor/cosponsor, identical bills, short title, and subject indexes.

SEARCH TERMS:	Public welfare and charities Labor and employment

> **MAJOR LEGISLATION OF THE CONGRESS** (MLC)

The MLC provides summaries of selected major legislation arranged by subject. It includes background on the issues and information on the content and status of major bills affecting that issue. The publication may be examined at a Government depository library or purchased from the Government Printing Office. Search under the headings "Income maintenance", "Labor", or "Social services" for public welfare and poverty related materials.

> **CIS INDEX** (Index to the Publications of the United States Congress)

The CIS Index, produced by the Congressional Information Service, abstracts all congressional publications with the exception of the Congressional Record. The Index is published monthly and cumulated quarterly and annually. Each issue of the Index is divided into index and abstract portions. CIS Index is available online commercially.

GENERAL:	Poverty Antipoverty programs Hunger and malnutrition
PUBLIC WELFARE:	Public welfare programs Public welfare finance
NEGATIVE INCOME TAX:	Income maintenance
EMPLOYMENT.	Unemployment Public service employment Manpower training programs Employment

GOVERNMENT PUBLICATIONS

> **MONTHLY CATALOG OF UNITED STATES GOVERNMENT PUBLICATIONS**

The Monthly Catalog lists documents issued by all branches of the Federal Government. The Catalog has monthly, semiannual, and annual indexes arranged by author, title, subject, keywords, and series/report title. The Monthly Catalog is available online commercially.

GENERAL:	Poverty
PUBLIC WELFARE:	Public welfare
NEGATIVE INCOME TAX:	Income maintenance programs
EMPLOYMENT:	Unemployment Employment Manpower Manpower policy

> **WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS**

The Weekly Compilation of Presidential Documents contains statements, messages, and other presidential materials released by the White House during the preceding week. The Weekly Compilation has weekly, quarterly, and annual indexes.

SEARCH TERMS:	Welfare system Employment and unemployment Unemployment

NEWSPAPER ARTICLES

The following indexes may be used to locate newspaper articles on public welfare and poverty issues.

> NEW YORK TIMES INDEX

The New York Times Index provides extensive abstracts for articles appearing in the New York Times.

GENERAL:	Poverty
PUBLIC WELFARE:	Welfare (US)
NEGATIVE INCOME TAX:	Welfare (US)
EMPLOYMENT:	Labor

> BELL & HOWELL NEWSPAPER INDEXES

The Bell & Howell Newspaper Indexes list articles appearing in the Chicago Tribune, Chicago Sun-Times, Denver Post, Detroit News, Houston Post, Los Angeles Times, New Orleans Times-Picayune, San Francisco Chronicle, and Washington Post.

GENERAL:	Poverty
PUBLIC WELFARE:	Public welfare
NEGATIVE INCOME TAX:	Public welfare
EMPLOYMENT:	Unemployed Public service employment

> OFFICIAL WASHINGTON POST INDEX

The Index provides access to all substantial newsworthy items in this paper.

GENERAL:	Poverty Homelessness Poor
PUBLIC WELFARE:	Public welfare Social service Welfare fraud Welfare recipients
NEGATIVE INCOME TAX:	Public welfare
EMPLOYMENT:	Unemployed Public service employment

> NATIONAL NEWSPAPER INDEX

National Newspaper Index, produced by Information Access Corporation, is available online commercially, and provides front-page to back-page indexing on current affairs topics in the Christian Science Monitor, New York Times and Wall Street Journal.

> NEXIS

The NEXIS online library provides access to wire service articles from the Associated Press, United Press International, and Reuters, articles from the Washington Post, and journal articles. The journals indexed include Newsweek and U.S. News & World Report. In addition to providing citations and abstracts of the materials included in the data base, NEXIS makes the full text of the articles available online. NEXIS also provides access to the New York Times Information Bank, which is a current affairs data base containing citations to the New York Times and over sixty newspapers and journals.

> NEWSSEARCH

Newsearch is the daily update of Magazine Index, National Newspaper Index, and Legal Resources Index in the Lockheed Dialog system. It provides front-page to back-page indexing of the Christian Science Monitor, Wall Street Journal, and New York Times, as well as popular magazines, law journals, and legal newspapers.

LEGAL MATERIALS

Articles from law journals are especially useful for exploring legal aspects of public welfare and poverty.

> CURRENT LAW INDEX

Current Law Index covers over 660 law periodicals selected by an advisory board of the American Association of Law Libraries. It is published in 8 monthly issues, 3 quarterly cumulations, and a single annual cumulation.

GENERAL:	Poverty Poverty research Poor
PUBLIC WELFARE:	Public welfare Social service Welfare fraud Welfare recipients
NEGATIVE INCOME TAX:	Income maintenance programs Family allowances
EMPLOYMENT:	Unemployed Public service employment Full employment policies

> INDEX TO LEGAL PERIODICALS

The Index to Legal Periodicals is a subject and author index to legal articles, yearbooks, institutes, and reviews of works published in the U.S., Canada, and other English-speaking countries. The Index is published monthly except September, with a bound cumulation each year.

GENERAL:	Poverty law
PUBLIC WELFARE:	Social welfare
NEGATIVE INCOME TAX:	Social welfare
EMPLOYMENT:	Unemployment

> LEGAL RESOURCE INDEX (microfilm)

Legal Resource Index includes over 600 law journals, six legal newspapers and relevant materials from the Library of Congress collection, Magazine Index, and National Newspaper Index. The Index is arranged in four separate sections: subject, author/title, table of cases, and table of statutes. When the Index is supplemented, a new cumulative microfilm is provided. The Index is available online commercially.

GENERAL:	Poverty Poor Homelessness Rural poor
PUBLIC WELFARE:	Public welfare Old age assistance Social service Welfare fraud Welfare recipicents
NEGATIVE INCOME TAX:	Income maintenance programs Family allowances Guaranteed annual income Negative income tax
EMPLOYMENT:	Unemployed Full employment policies Hard-core unemployed Public service employment

STATISTICAL SOURCES

> AMERICAN STATISTICS INDEX (ASI)

The American Statistics Index, indexes and describes the statistical publications of the U.S. Government, including periodicals, annuals, biennial, semi-annual, and special publications. The Index provides access to statistical materials by subject, organization, name, issuing source, and title. The Index is published monthly and cumulated quarterly and annually. ASI is available online commercially.

GENERAL:	Poverty
PUBLIC WELFARE:	Public welfare programs Old age assistance Social services
NEGATIVE INCOME TAX:	Income maintenance
EMPLOYMENT:	Public service employment Employment and unemployment Work incentive program

> STATISTICAL REFERENCE INDEX (SRI)

The Statistical Reference Index provides a guide and index to selected statistical reference material from non-Federal sources on a wide spectrum of subject matter. It includes the publications of trade, professional, and other non-profit associations and institutions, business organizations, commercial publishers, university and independent research centers, and State government agencies. The Index provides access by subject, organization, name, issuing source, and title. The Index is published monthly and cumulated annually.

GENERAL:	Poverty
PUBLIC WELFARE:	Public welfare programs Old age assistance Social services State funding for social welfare
NEGATIVE INCOME TAX:	Income maintenance
EMPLOYMENT:	Public service employment Comprehensive Employment and Training Act Work incentive program Employment and unemployment

PART II: POVERTY AND PUBLIC WELFARE SOURCES

INDEXES AND BIBLIOGRAPHIC DATA BASES

Citations to journal articles and other materials about poverty and public welfare issues may be found in the following printed indexes.

SOCIAL SCIENCES CITATION INDEX provides indexing entries to the current literature in every discipline in the social sciences, including economics and sociology. The *Index* is published three times a year and cumulated annually.

SOCIOLOGICAL ABSTRACTS covers the world's literature on sociology and includes materials on policy, poverty studies, and community development. It is published five times per year and cumulated annually.

Both of these indexes are available online commercially.

REFERENCE BOOKS

U.S. Congress. House. Committee on Ways and Means. Subcommittee on Oversight. Background material on poverty; Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives. Washington, G.P.O., 1983. 163 p.
At head of title: 98th Congress, 1st session. Committee print, WMCP 98-15.

U.S. Office of Management and Budget. Catalog of Federal domestic assistance. Washington, For sale by the Supt. of Docs., G.P.O., 1983. 872 p.
Published annually.

ORGANIZATIONS

The following organizations were selected from the Encyclopedia of Associations and the Washington Information Directory, 1984-85 as possible sources of information on poverty and public welfare issues. The descriptions of the groups' activities are taken from these sources.

American Public Welfare Association
1125 15th Street, N.W., Suite 300
Washington, D.C. 20005
(202) 293-7550
National organization of public welfare agencies, their professional staff members and others interested in public welfare. Develops national social policy positions as well as professional standards for members.

Brookings Institution
Governmental Studies
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036
(202) 797-6050
Research and educational organization that studies welfare reform and other related social welfare matters.

Bureau of Labor Statistics (U.S. Dept. of Labor)
441 G Street, N.W.
Washington, D.C. 20212
(202) 523-1221
Collects, analyzes, and publishes data on employment and unemployment. Listed here are a sample of some of the publications available from the Bureau: Employment and Earnings, Employment and Training Report of the President, Linking Employment Problems to Economic Status, and the Handbook of Labor Statistics. These publications are available at the Bureau's regional offices, many depository libraries, or from the Government Printing Office.

Center for the Study of Social Policy
236 Massachusetts Avenue, N.E.
Washington, D.C. 20002
(202) 546-5062
Conducts research on the financing and delivery of government human services. Analyzes the impact of program changes on specific populations, such as recipients in the Aid to Families with Dependent Children Program and the working poor.

Employment and Training Administration (U.S. Dept. of Labor)
Work Incentive Programs (WIN)
601 D Street, N.W.
Washington, D.C. 20213
(202) 376-6630
Administers the Work Incentive (WIN) Program jointly with the Health and Human Services Department; provides services such as job training and referrals to welfare recipients.

Institute for Socioeconomic Studies
Airport Road and New King Street
White Plains, N.Y. 10604
(914) 428-7400
Foundation with broad research interests relating to the quality of life, economic development, poverty, and urban regeneration. Conducts research for scholars and policymakers studying important socioeconomic issues.

National Assembly of National Voluntar Health
and Social Welfare Organizations
291 Broadway
New York, N.Y. 10007
(212) 267-1700
Goal is "to foster intercommunication and interaction among national voluntary health and social welfare agencies in the interests of increasing the impact of the individual agencies and of voluntarism on human needs."

National Community Action Agency Executive
Directors Association
1000 16th Street, N.W., Suite 1150
Washington, D.C. 20036
(202) 296-6975
Represents community action agencies to promote a unified approach to solving the problems of poverty within the United States.

National Conference on Social Welfare
1730 M Street, N.W., Suite 911
Washington, D.C. 20036
(202) 785-0817
Organization of professional and lay persons and local, State, and national agencies interested in social welfare and human services. Conducts studies on basic social welfare problems and policy issues.

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007
(616) 343-5541
Private nonprofit organization "for research into causes and effects of unemployment and to study and investigate the feasibility and methods of insuring against unemployment and devise ways and means of preventing and alleviating the distress and hardship caused by unemployment."

Working Group on Domestic Hunger and Poverty
475 Riverside Drive, Room 572
New York, N.Y. 10115
(212) 870-2307
A project of the National Council of Churches of Christ in the U.S.A. which aids in the organization of anti-hunger coalitions throughout the country. Also compiles nationwide statistics on Federal budget cuts and poverty needs.

SELECTED PERIODICALS

The following periodicals frequently contain articles on poverty, public welfare, and employment issues:

The Challenge (bimonthly) [published by Dept. of Public Welfare, Harrisburg, Pa.]
Economic Opportunity Report (weekly)
Evaluation Quarterly
Human Resources Abstracts (quarterly)
Journal of Human Resources: Education, Manpower and Welfare Policies (quarterly)
Journal of Social Policy (quarterly)
Manpower (monthly)
Monthly Labor Review
Occupational Outlook Quarterly (quarterly)
Public Welfare (quarterly)

UNITED STATES GOVERNMENT PRINTING OFFICE
SUPERINTENDENT OF DOCUMENTS
WASHINGTON, D.C. 20402

SB-043
March 24, 1984

PUBLICATIONS RELATING TO THE 1984-85
HIGH SCHOOL DEBATE

Resolved: How Can the Federal Government Best Decrease Poverty in the United States?

* * * * * * * * * * * *

Aid to Families With Dependent Children, 1979 Recipient Characteristics Study:

___ Part 1, Demographic and Program Statistics. 1982. 69 p. il. HE 3.65:979/pt.1 S/N 017-070-00380-0 $ 5.00

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GS 4.110:98/8 S/N 022-003-95763-4 3.25

___Emergency Jobs Appropriations, Amendment, Public Law 98-26. Joint Resolution to Correct Public Law 98-8 Due to Errors in the Enrollment of H.R. 1718. Approved May 4, 1983. 1 p.
GS 4.110:98/26 S/N 022-003-95781-2 1.75

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___Employment and Training Report of the President, 1982. *Reviews significant employment and unemployment developments in calendar year 1981. For Fiscal Year 1981, it describes employment and training program activities (CETA) and reports on veterans' services. Summarizes major findings from research projects completed between June 1981 and June 1982.* 1983. 352 p. il.
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___Federal Agency Equal Employment Opportunity Public Information Materials: An Annotated Bibliography. *Lists information materials developed for external Federal equal employment programs affecting private employers, State and local governments, Federal contractors, and recipients of Federal financial assistance. Includes addresses and telephone numbers of contact offices.* 1981. 39 p.
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___Fifth Annual Report to the President and the Congress of the National Commission for Employment Policy, Expanding Employment Opportunities for Disadvantaged Youth. 1979. 264 p. il.
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___Public Assistance Recipients in Standard Metropolitan Statistical Areas, February 1982. *Presents caseload data for February 1982 under the programs of Aid to Families With Dependent Children (AFDC) and General Assistance (GA).* 1983. 38 p.
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___Quarterly Public Assistance Statistics. (Quarterly and Annual Index.) *Contains data on aid to families with dependent children.* Subscription price: Domestic - $12.00 a year; Foreign - $15.00 a year. Single copy price: Domestic - $3.00 a copy; Foreign - $3.75 a copy. Annual Index: Domestic - $3.50 a copy; Foreign - $4.40 a copy. [QPAS]. (File Code 2Q)
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___Supplemental Security Income, State and County Data, December 1981. *Presents data on State and county distribution of Federally administered payments to persons receiving supplemental security income in December 1981.* 1982. 141 p.
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