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Retrenchment or Reorientation: Options for Income Support Policy

Sheldon Danziger, Robert Haveman, and Robert Plotnick[1]

The past three decades, and particularly the last fifteen years, have witnessed explosive growth in income support and other social welfare programs. These programs accomplish important objectives: They prevent large losses in economic well-being because of uncontrollable events that destroy earnings capacity or disrupt earnings. They guarantee access to indispensable goods and services. They reduce poverty, thereby narrowing the income gap between rich and poor.

The gains achieved in all of these areas are substantial, yet some feel that the income transfer system has grown too large. Income poverty is now all but erased, they claim, and the undesirable side effects are enormous. Work incentives have been eroded--for both the poor and the rich. The incentive to save has been weakened, and as a result, economic growth is impeded and productivity retarded. Some of those taking this position argue that the growth of these programs be curtailed; others want the programs themselves to be scaled back or eliminated.

In this paper, we offer a quite different evaluation of the income support system. In our view, the evidence does not sustain the claim that retrenchment is in order, even though all is not as it should be. Critics have overstated the gains against poverty and the costs of work and savings disincentives. Although the war on poverty has not been won, progress has been made. And while the policies have increased disincentives to work and save, the magnitude of these effects poses no serious threat to the efficiency of the economy. From our reading of the evidence, reorientation rather than retrenchment is the appropriate policy response. Retrenchment could no doubt promote efficiency, but it will also increase poverty. What is required is to integrate the income support system into the labor market. Such a reorientation would both promote efficiency and reduce poverty.

We begin by describing the income support system and documenting its growth. Then we describe the role of the system in reducing poverty, and appraise its effects on work and savings. This review of the evidence culminates in a summary scorecard. In it, we present our evaluation of how the postwar growth of the income support system has affected poverty, work, savings, and economic growth, and how additional growth in the system would affect these same variables. The conclusions of this scorecard provide the basis for a reorientation strategy that emphasizes programs to enhance earnings and employment in the private sector as a complement to income support. Only through such a reorientation can earnings be substituted for cash support, and the inefficiencies created by minimum wage laws, work disincentives, and other labor market constraints be offset.

Income Support Programs and Their Growth

Public expenditures for income support totalled $200 billion in 1978--10 percent of GNP. These programs, listed in Table 1, are divided into two groups: social insurance and income assistance. Eligibility for the social insurance programs depends on past contributions and some identifiable problem, such as disability, unemployment, or old age. In contrast, are the income assistance programs that do not require past

Table 1

Major Income Support Programs, 1978

		Expenditures (in $ billion)
Social Insurance Programs	$152.1	
- Old Age and Survivors Insurance (OASDHI)		81.2
- Disability Insurance (OASDHI)		12.7
- Medicare (OASDHI)		25.2
- Unemployment Insurance		11.8
- Workers Compensation		10.0
- Veterans Disability Compensation		6.2
- Railroad Retirement		4.0
- Black Lung		1.0
Income Assistance Programs (Welfare)	$ 51.9	
- Medicaid		18.9
- Aid to Families with Dependent Children (AFDC)		11.9
- Supplemental Security Income (SSI)		7.4
- Food Stamps		5.5
- Veterans Pensions		3.3
- General Assistance		1.2
- Housing Assistance		3.7
Total	$204.0	

Source: The Budget of the United States Government, Fiscal Year, 1980, Appendix.

contributions. Their benefits are income-tested, in that they are available only to those whose incomes from private sources and social insurance are very low. The income assistance programs, taken together, form the "welfare system." Programs of each type provide cash (e.g., Social Security and AFDC) and in-kind support (e.g., Medicare and Food Stamps). Some are federal programs, others are joint federal-state ventures or state-local programs.

Income support programs provide aid to households on a scale far larger than is usually perceived. Presently, about half of the nation's households (indeed, 80 percent of all poor ones) receive cash or in-kind income from one or more programs; the mean cash benefit for households receiving benefits exceeds $3400. About 35 percent of households receive social insurance income; 12-15 percent participate in one or more welfare programs.[2]

Several characteristics of the income support system should be emphasized. First, it is a categorical system, in that it deals differentially with people having the same needs but different characteristics. For example, there are separate programs for single parent families, veterans, the aged, blind, and disabled, the unemployed, and the working poor. Most, though not all, of this categorization is a response to the issue of work incentives. Those who are expected to work are treated differently from those who are not. Food Stamps is the only program that assists all persons with low income. Second, expenditures for social insurance are substantially larger than for welfare; they account for nearly three-quarters of the expenditures. Consequently, social insurance lifts more people out of poverty than does welfare, even though a larger proportion of welfare benefits go to the poor. Third, although many consider AFDC to be synonymous with "welfare," AFDC accounts for only a fifth of all expenditures on income assistance. Medicaid is by far the largest welfare program.

In 1950, public spending for income support equalled 2 percent of GNP, 4 percent of personal income, and 14 percent of government spending. After 25 years of rapid growth, these shares had increased to 10, 13, and 32 percent, respectively. This growth had several causes. First, the increased affluence of the post-World-War-II period led citizens to revise upwards their notions of what constitutes a minimally decent standard of living. As a result, more families were judged to require assistance, and this aid was directed toward those with the lowest incomes. Second, programs automatically grew as they matured. For example, Social Security expenditures were low for many years because few qualified for retirement benefits. As a larger fraction of retirees became eligible, outlays increased. Finally, several programs were initiated or expanded after 1965, particularly Medicare, Medicaid, and Food Stamps. Social Security payments for both retirement and disability grew rapidly as, in a series of measures between 1967 and 1974, Congress increased benefits by 90 percent. By way of comparison, average personal income grew by only 43 percent over this period.[3]

The Antipoverty Impacts of Income Transfers

Rapid growth in coverage and benefit levels of income support programs significantly reduced the incidence of poverty. Table 2, column 1, presents the changes in income poverty from 1965 to 1976 if all cash receipts, including cash income support payments, are taken into account. These data, the official Census poverty statistics, show that poverty fell by 25 percent between 1956 and 1972, but that there has been no real progress since. The second column adjusts Census data for underreporting of incomes, payment of federal income and payroll taxes, and the receipt of in-kind transfers, and shows that poverty when income is so defined declined by almost 50 percent. The adjusted poverty data suggest a less-serious problem in each year, but also show no real progress since 1972. Nonetheless, an incidence of 6.5 percent means that 14 million persons remain poor, and among some groups, even adjusted poverty levels remain shockingly high. About one-third of black female households, one-fifth of white female households, and one-tenth of black male households remain poor.

Poverty declined, but not because the programs of the War on Poverty successfully provided a "hand up" to enable the poor to earn their way out of poverty. If only income from private sources is counted, the percentage of the population below the poverty line--the "pretransfer poor"--has remained almost constant at about 20 percent since 1965. Cash and in-kind benefits, not increased earnings, account for all the progress.

While absolute poverty has declined, overall income inequality has remained remarkably stable. If support payments had not increased, the distribution of income would actually have become more unequal during the past twenty-five years.[4]

Table 2

The Trend in the Incidence of Poverty Among Persons, 1965-1976

Year	% of Population below Poverty Line	
	Census Income	Adjusted Income
1965	15.6%	12.1%
1968	12.8	10.1
1970	12.6	9.4
1972	11.9	6.2
1974	11.6	7.8
1976	11.8	6.5
% change, 1965-1976	-24.4	-46.2

Source: Robert Plotnick and Timothy Smeeding, "Poverty and Income Transfers: Past Trends and Future Prospects," Public Policy, Summer 1979.

Clearly, income support payments vastly improve the living standards of our poorest citizens. However, for those who want to and are able to work, the increased support payments do not provide economic independence. One consequence of the growth in income support is increased dependence on government programs for an increasing percentage of the population.

To some extent the growth of income support payments has contributed to pretransfer poverty. Without improved benefits, some recipients would have worked more, and, as a result, pretransfer poverty would have been lower.[5] Similarly, if benefits had not grown, some persons with relatively low market incomes (e.g., single mothers or the elderly) might not have established independent households that are counted among the pretransfer poor.[6] Still, our research suggests that these effects, while present, are not sufficiently large to challenge our main conclusion: if income support payments had not increased, poverty would not have declined.

Effects of Income Transfers on Work and Saving

In addition to enhancing security and reducing poverty, income support programs create incentives which adversely affect economic behavior. These incentives have received substantial attention in recent years. Whether referred to as supply-side effects or Laffer-curve impacts, or whether discussed in the scholarly journals or in the press, the critical issue concerns the impact on economic growth. At its core, this case against existing income support policy can be paraphrased as follows:

> Because of the incentives in income support programs, and the taxes required to finance them, work effort is discouraged and savings and investments are reduced. Thus, the growth in the income support system has played a significant role in the sluggish performance of the economy. Further expansion would have increasingly negative effects.[7]

A large number of recent studies has sought to quantify the magnitude of the negative work and savings incentives. This literature provides the basis for judging the extent of the behavioral responses generated by income support policy.

Consider first work effort. While almost any aspect of an income support program might cause beneficiaries to alter their work effort, two key financial characteristics--the guarantee and the benefit-reduction rate--are most important. The guarantee, which often varies with family size, is the maximum payment that a person or family could receive. For example, a family of four with no other income might be guaranteed a cash grant of $4000. The benefit-reduction rate is the percentage by which this payment is reduced as earnings increase. For example, if benefit payments are reduced by 60 cents for each dollar of earnings, the benefit-reduction rate is 60 percent. In most income support programs--for example, Aid to Families with Dependent Children, Supplemental Security Income, Unemployment Insurance, and Old Age Insurance (OAI) for those younger than age 72--these benefit-reduction rates are positive and rather high. In several programs, however, benefits do not depend on earnings; neither OAI benefits for those over 72 nor veterans' disability payments are reduced as earnings rise.

Economic theory predicts that both the guarantee and the benefit-reduction rate will reduce work effort. The guarantee, by providing an income cushion, enables beneficiaries who value activities other than work to substitute these for work. The benefit-reduction rate also reduces work effort--in this case by effectively cutting the wage rate by which the worker is rewarded. While this effect may be somewhat offset because the benefit-reduction rate also limits the total income available, it is clear that an increase in both the guarantee and the benefit-reduction rate would reduce work effort. And, in recent years, both guarantees and benefit-reduction rates have been rising.

Numerous studies--both social experiments and more conventional analyses of data--have confirmed the existence of these guarantee and benefit-reduction rate effects.[8] From these studies, it is possible to estimate--in a rough fashion--the total impact of the income support system on work effort. This estimate must be rough, however, because the studies tend to focus on individual programs, and not the entire income support system. When an entire system of many programs is put into place, some fundamental behavioral changes may occur. People's evaluation of the benefits and costs of working (or working hard), the benefits and costs of entering the labor force early when young (or leaving later when old), the benefits and costs of avoiding layoffs or terminations, the benefits and costs of hurrying back to work when laid off, and the benefits and costs of seeking advancement and promotions may all be altered. All of these changes must be considered in evaluating the total effect on work of the support system.

Robert Lampman's "guesstimate" of the effect of the expansion of all social welfare expenditures on total work effort concluded that the system's expansion from 1950 to 1976--from 9 to 21 percent of GNP--caused hours worked to decline by 7 percent from what they would have been if the system had not expanded.[9] This rather high number resulted because

the effects of some programs (e.g., public education) not in the income support system (Table 1) were included in the study. Moreover, the effect on work of the taxes required to finance the expansion was also included.

Our approach is somewhat different. Statistical estimates of the work responses of various groups to guarantees and benefit-reduction rates are now available. These responses, when applied to programs serving specific groups, yield estimates of the work reduction attributable to each program. By reviewing the effect on work of each of the programs in Table 1, an aggregate effect can be obtained. Our procedure suggests a total work reduction of about 3 percent. This result is consistent with the 7 percent figure obtained by Lampman, because the programs in Table 1 exclude some major components of total social welfare expenditures. Moreover, we did not include the disincentive effect of the increased taxes required to finance the outlays.[10]

Neither of these estimates supports the view that increased income support or social welfare spending has seriously disrupted the functioning of the labor market. The percentage reduction in total economic activity caused by these disincentives will be less than either the 7 percent or 3 percent reduction in time worked because the earnings of most recipients are well below the average of U.S. workers.

The effect of the income support system on thrift and savings has also been studied. The expansion of benefits has been found to decrease total savings. This occurs because income is transferred to lower-income people, who have higher propensities to consume, and away from higher-income people, who tend to save more. In an economy with slack resources, this expansion in consumption would result in greater output and employment.

These increases at least partially offset losses in production due to work disincentives and may induce greater investment. In a fully employed economy, however, the increased consumption could come only at the expense of investment, and would result in some slackening of production and growth.

This possibility has been widely discussed, especially with respect to the impact of Social Security on savings. Three possible mechanisms by which Social Security benefits interact with the savings rate have been identified. First, the expectation of Social Security benefits may lead citizens to save less for their retirement. Because the system operates on a pay-as-you-go basis, public saving does not occur to offset the reduced private saving. As a result, total saving in the economy is likely to fall. The second effect may offset this. Because of Social Security, some people may retire earlier and hence require more retirement income than otherwise. This may cause them to save more in their pre-retirement years, thus increasing total saving in the economy. Finally, again because the Social Security system is on a pay-as-you-go basis, income is being transferred from young people to older people. If parents wish to leave a bequest to children, they may increase its amount to offset the increased tax burden on children caused by the Social Security System. The result may be an increase in saving, thus reinforcing the second effect.

In recent years a large number of researchers have addressed the Social Security-savings nexus.[11] An impressive array of variables and empirical equations have been mustered in the "regression wars" among these contenders. The general result--and perhaps the current consensus among economists--is that Social Security has depressed private savings by a small amount, but that this amount has not yet been measured precisely.

These studies, it should be noted, focus on Social Security alone, not on the effect of the entire income support system, and they do so in the context of a fully employed economy. As noted above, for a slack economy the case is quite different. Given the failure of the American economy to achieve full employment over most of the postwar period, we conclude that the overall effect of the income support system on the level of savings--and hence on the growth rate of GNP--may well have been slightly positive and no worse than neutral.

The Effects of Income Support Programs--A Summary

The entries in Table 3 reflect our reading of the empirical studies and summarize our judgments on the effects of the income support system. The first column is backward-looking--it appraises the effects of the actual expansion of the system from its size and composition in 1950. The first entry, for example, indicates that income poverty today is 50-60 percent smaller than it would have been if the 1950 income support system had been maintained. The second column is prospective. It reflects our judgment regarding the effects of a modest proportional expansion of the system from its current state. For example, such an expansion is not likely to produce a noticeable reduction in the number of poor people. Most of the additional support payments would go to recipients who already are above the poverty line. Our estimates indicate that a proportional expansion in benefits would reduce the gap between the incomes of the poor and the poverty line by merely 5

Table 3

The Effects of Income Support Programs

	Effect of Support Programs, Relative to 1950 System	Effect of Marginal Expansion, Relative to Current System
Income Poverty	Reduction by 50-60 percent	Not large, as most easy gains have been made
Work Effort	Reduction by about 3-7 percent	Negative
Savings	Modest reduction, assuming full employment; otherwise a small increase	Neutral or slightly negative ; slight expansion if less than full employment
GNP Growth	Modest reduction, assuming full employment; otherwise a small increase	Slightly negative; neutral if less than full employment

cents for every dollar spent. The easy gains have already been made, and the groups remaining poor today will not be substantially helped by a proportional expansion of existing programs.

Past growth of the system has significantly reduced poverty while only modestly reducing work effort, savings, and GNP growth. Continued growth, however, means a less-favorable trade-off. Proportional expansion of existing programs will secure few redistributive gains and cause further erosion of work effort and savings.

Our conclusion differs substantially from an alternative view, that holds (1) the war on poverty has been won, in large part, because of the rapid growth in income support payments, and (2) the disincentive effects of the current system are so large that the answer to "How much more equality can we afford?" is "Not any more."[12] This view overstates both the positive antipoverty and negative work and savings effects of the current system. Though poverty has declined substantially, a significant problem remains; while the system does create some disincentives to work and save, their modest size currently poses no serious threat to the growth of the economy.

New Directions for Income Support Policy

What then is called for? Some observers argue that we have moved too far along the "Laffer curve," that economic growth is needed, even at the cost of increased inequalities, and that a retrenchment is required. The elimination of Food Stamps and an end to the automatic inflation adjustments of benefit levels in Social Security and other programs have been suggested. The evidence does not justify these conclusions.

Reductions in income support would lose much and gain little. However, changes in the current system designed to emphasize work opportunities could simultaneously improve incentives, enhance economic growth, and improve the position of those with poor education and few skills, whether they are poor or near poor.

This reorientation of the system would not involve cutbacks in income support to those who are not expected to work--the aged, disabled, or those with substantial child care responsibilities. It would emphasize policies--of which employment subsidies are a primary example--designed to enhance earnings and employment opportunities in the labor market for low skill workers. Through such a strategy, the structural unemployment caused by minimum wages (and other gaps between worker productivity and the wage costs borne by employers) would be reduced. Those expected to work--that 30 percent of all income poor household heads--would experience improved labor market options. These improved market conditions would also benefit those who are not expected to work--many of whom wish to, and indeed do, work.

Our reorientation does not represent a comprehensive reform of the entire income support system.[13] We do not, for example, address Social Security reform, reforms in health insurance or unemployment compensation, or reforms for those not expected to work, to name a few. Nonetheless, policies to enhance earnings and employment warrant attention for two major reasons. First, reductions in work induced by the current system are its most significant negative effect. These reductions entail real economic losses and generate vociferous public dissatisfaction. Second, the major lesson which we draw from the policy debates of the past decade is that a welfare reform of the negative income tax variety that does not promote independence from support payments cannot solve the "welfare mess". To do so requires that we reduce poverty not by providing more income support payments, but by providing more job opportunities and higher earnings.

Several recent policy initiatives suggest that such an employment-based reorientation is already under way. A major thrust of President Carter's welfare reform plans (the unsuccessful 1977 Program for Better Jobs and Income, and the postponed 1979 reforms) was to reduce welfare's work disincentives.[14] The reforms would have reduced the benefit reduction rate for recipients who worked and provided public employment to stimulate the demand for recipients who could not find private jobs.

Although welfare was not reformed, Congress did legislate programs to increase both the work effort of recipients and the demand for their labor. In 1977 and 1978, public employment was rapidly expanded under the Comprehensive Employment and Training Act (CETA). Many of these jobs were filled by low-skilled and disadvantaged workers. The Tax Reform Act of 1978 further encouraged increased work by expanding the Earned Income Tax Credit. It now provides a subsidy which increases with earnings up to a maximum of $500 for a family head with low earnings, and reduces taxes for all families with incomes below $11,000. Because the credit is based on earned income, it makes work, relative to benefit recipiency, more attractive than before, and thus reduces the adverse impact of support programs on work effort.

Two other recent developments focus on earned income and the labor market determinants of pretransfer poverty. In 1976, Congress adopted the

New Jobs Tax Credit, which subsidized employment over and above 102 percent of the previous year's employment level. Because this credit only subsidized 50 percent of the first $6000 of earnings, employers were given a substantial incentive to hire low-skill (relative to high-skill) workers and to substitute labor for capital. Evaluations have suggested a major job creation impact from this program. In the construction and retailing industries, for example, 20 percent of the 1977-78 employment increase has been attributed to the New Jobs Tax Credit, and many of the added employees were low-skill, low-wage workers.[15] Second, Congress passed the Targeted Jobs Tax Credit in late 1978. This credit subsidizes 50 percent of the first $6000 of wages of certain target groups of workers, including disabled workers, youths from disadvantaged families, disadvantaged Vietnam-era veterans, ex-offenders, and recipients of SSI and General Assistance.

These developments recognize the connections among poverty, income support programs, and the labor market. All but the Earned Income Tax Credit aim at directly altering the demand for labor by reducing the cost of hiring additional workers. These subsidies can offset existing biases against employment--such as the investment tax credit, minimum wages, and employment costs of pensions, unemployment insurance, and mandated health and safety regulations. If successful, the subsidies will cause employers to substitute workers in the target group for both capital and nontargeted workers. Such altered incentives help to counteract the work disincentives of support programs, and form the core of a fundamental reorientation of the income support system.

These programs have other effects that are likely to make them more popular than increased income support. If job creation efforts are targeted on groups with high unemployment or low labor force participation, output and employment will increase without creating inflationary pressure. This effect has been called "cheating the Phillips curve." Moreover, taxpayers will benefit from the increased taxes paid by the newly hired workers as well as from the reduced support payments. Both poverty and dependency will be reduced, and the self-respect of the newly employed should increase. Targeted job creation will also shift the composition of employment toward low-skill, low-wage workers. If smaller disparities in unemployment rates and market incomes are desired, this is a major benefit.

While such a reorientation of income support policy has a strong rationale, the effective design and implementation of programs to stimulate the demand for low productivity workers are not straightforward. "Displacement effects"--the reduction of employment somewhere else which offsets the jobs created directly by the program--are a major problem. If there is displacement, the <u>net</u> job creation impact will be smaller than the <u>gross</u> number of workers hired or subsidized. Another problem involves the high resource and budget costs of the net jobs created by this approach. A recent estimate (based on an assumed displacement rate of 20 percent in public and 80 percent in private job creation programs) suggests a cost per job of about $6500 for private sector programs and over $9000 for public sector programs. These estimates suggest that the taxpayer cost per job created is close to if not in excess of the net earnings of the new employees. A third problem concerns whether the value of the output produced exceeds the real costs of creating the jobs. These real costs include both the value of the equipment and materials used and the value of what the worker would have been doing if the program had not existed (e.g., child care, other market work, or leisure might be foregone).

Job creation programs in the public sector (e.g., CETA) are likely to differ from those in the private sector (e.g., the New Jobs Tax Credit). Economic theory suggests that the private sector will be more efficient. Private employers already have established production processes and marketing channels for their products, whereas public employment programs are often undertaken with no clear definition of expected output and no easy measure of productivity. Partially off-setting this is the fact that, through competition, privately marketed outputs are more likely to displace other production than public outputs designed to fill an unoccupied economic niche. Moreover, if private employers use the subsidy to retain workers who they otherwise would have laid off, the opportunity cost of the workers retained will be low. Although private sector efforts targeted on low-skill workers are likely to be more efficient, all attempts to create jobs are likely to encounter some of these difficulties.[16]

As we enter the 1980s the reorientation of income support policy toward increasing the demand for low productivity workers would appear to have both political appeal and an economic rationale. Major domestic problems of the 1980s are likely to include continued inflation; structural unemployment of women, minorities, and the low-skilled; and economic dislocation due to higher energy prices and changing retirement patterns. Policies to enhance employment and earnings, in particular employment subsidies, have an important role to play in such an environment. The Full Employment and Balanced Growth Act of 1978 already provides a legislative mandate to directly use such federal policies to meet these problems.

While this employment generation approach is basic to a more effective income support system, it in no way forms a complete reform. With it, the work disincentives in the existing system could be reduced. Serious problems of program integration and administration, horizontal inequities among families of different types and in different locations, and incentives for migration and family break-up would still characterize the existing system. Making employment the core of the system, however, would influence the direction of future, more general reforms.

Clearly, such a reorientation requires a great deal more knowledge about such issues as benefits, costs, and administrative design, of specific initiatives. Additional research on these issues should be high on the policy agenda for the early 1980s. The results from such studies could serve as the basis for an efficient expansion of employment subsidies and, perhaps, public employment programs.

A reorientation of the support system which emphasizes earnings and employment can induce the low-skilled to increase their work effort and employers to increase their demands for such workers. It offers the potential for reducing poverty and dependence on government payments and increasing work, savings, and economic growth. The sacrifice of this potential in the interest of retrenchment would miss an opportunity for meaningful reform.

NOTES

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[2]See S. Danziger, R. Haveman, and R. Plotnick, "Income Transfer Programs in the United States: An Analysis of Their Structure and Impacts," in U.S. Congress, Joint Economic Committee, Special Studies of Economic Change, 1980.

[3]See R. Plotnick, "Social Welfare Expenditures: How Much Help for the Poor?," Policy Analysis, Summer 1979, pp. 255-272.

[4]Several papers have demonstrated this conclusion. See especially S. Danziger and R. Plotnick, "Demographic Change, Government Transfers, and the Distribution of Income," Monthly Labor Review, April 1977, pp. 7-11. Also, see A. Blinder, "The Level and Distribution of Economic Well-being," to appear in M. Feldstein, editor. Postwar Changes in the American Economy, 1981; T. Smeeding, "On the Distribution of Net Income: Comment," Southern Economic Journal, January, 1979, pp. 932-934; M. Reynolds and E. Smolensky, Public Expenditures, Taxes, and The Distribution of Income (New York: Academic Press, 1977).

[5]See R. Plotnick, "Income Support Programs, Income Redistribution, and Labor Supply: A Simulation Analysis," mimeo, 1979.

[6]See S. Danziger, G. Jakubson, S. Schwartz, and E. Smolensky, "Welfare Income as a Determinant of Female Household Headship," Institute for Research on Poverty Discussion Paper, mimeo, 1980.

[7]For examples of such arguments, see A. Laffer and J. Seymour, The Economics of the Tax Revolt: A Reader, (New York: Harcourt Brace, 1979; Also, the section on "Domestic Issues" in P. Duignan and A. Rabushka, editors, The United States in the 1980s (Standford: Hoover Institution, 1980).

[8]The most prominent of these studies are: G. Cain and H. Watts, Income Maintenance and Labor Supply (Chicago: Markham, 1973); S. Masters and I. Garfinkel, Estimating the Labor Supply Effects of Income Maintenance Experiment, Vol. II. (New York: Academic Press, 1978); M. Keeley et al., "The Estimation of Labor Supply Models Using Experimental Data," American Economic Review, December 1978, pp. 873-887; M. Keeley et al., "The Labor Supply Effects and Costs of Alternative Negative Income Tax Programs," Journal of Human Resources, Winter 1978, pp. 3-36; J. Heckman, M. Killingsworth, and T. MacCurdy, "Recent Theoretical and Empirical Studies of Labor Supply," prepared for a conference at Magdalen College, September, 1979, mimeo; and D. Hamermesh, Jobless Pay and the Economy (Baltimore: Johns Hopkins Press, 1977).

[9]R. Lampman, "Labor Supply and Social Welfare Benefits in the United States," Institute for Research on Poverty Special Report 22, 1978. It should be noted that Lampman's estimate is of the labor supply effect of all social welfare benefits (including housing, manpower training, and education programs), rather than just income transfers.

[10]The estimates on which we relied in arriving at this conclusion are described in S. Danziger, R. Haveman, and R. Plotnick, op. cit.

[11]See M. Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," Journal of Political Economy, October 1974, pp. 905-926; R. Barro, "Are Government Bonds Net Wealth?" Journal of Political Economy, November/December 1974, pp. 1095-1117; R. Barro, The Impact of Social Security on Private Saving: Evidence from the U.S. Time Series (Washington, D.C.: American Enterprise Institute, 1978); A. Munnell, "The Impact of Social Security on Personal Saving," National Tax Journal, December 1974, pp. 553-567. A useful review of the time-series studies is Louis Esposito, "Effect of Social Security on Saving: Review of Studies Using U.S. Time Series Data," Social Security Bulletin, May 1978, pp. 9-17.

[12]M. Anderson, Welfare, (Stanford: Hoover Institution, 1977); M. Paglin, "How Effective is Our Multiple Benefit Anti-Poverty Program?," paper presented at Middlebury College Conference on Welfare Reform, April 1980; E. Browning, "How Much More Equality Can We Afford?" Public Interest, Spring 1976, pp. 90-110.

[13]Additional discussion of the nature of this reorientation and of some other aspects of reform are presented in S. Danziger, I. Garfinkel, and R. Haveman, "Poverty, Welfare, and Earnings: A New Approach," Challenge, Sept.-Oct., 1979; and R. Haveman, "Direct Job Creation: Potentials and Realities," in E. Ginsberg, ed., Employing the Unemployed: Assessment of Federal Programs. (New York: Basic Books, 1980).

[14]See S. Danziger, R. Haveman, and E. Smolensky, "The Program for Better Jobs and Income--A Guide and Critique," U.S. Congress, Joint Economic Committee, February 1978.

[15]See J. Bishop and R. Haveman, "Employment Subsidies: Can Okun's Law be Repealed," American Economic Review, May 1979, pp. 124-130, and J. Perloff and M. Wachter, "The New Jobs Tax Credit: An Evaluation of the 1977-78 Wage Subsidy Program," American Economic Review, May, 1979, pp. 173-179.

[16]For a full discussion of the potentials and problems of public employment and wage subsidy policies, see J. Palmer (ed.), Creating Jobs: Public Employment and Wage Subsidies (Washington: The Brookings Institution, 1978).