DP #490-78

INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

INCOME SUPPORT POLICY: WHERE WE'VE COME FROM AND WHERE WE SHOULD BE GOING

Irwin Garfinkel

with the assistance of

Felicity Skidmore

UNIVERSITY OF WISCONSIN ~ MADISON

INCOME SUPPORT POLICY: WHERE WE'VE COME FROM

AND WHERE WE SHOULD BE GOING

Irwin Garfinkel

with the assistance of

Felicity Skidmore

April 1978

The work for this paper was funded partly by the U.S. Department of Labor and partly by funds granted to the Institute for Research on Poverty at the University of Wisconsin by the Office of Economic Opportunity pursuant to the provisions of the Economic Opportunity Act of 1964. The views expressed are those of the authors.

INCOME SUPPORT POLICY: WHERE WE'VE COME FROM AND WHERE WE SHOULD BE GOING

This paper discusses the major issues underlying welfare reform, examines important criticisms of current programs, explains how the Carter Administration's Better Jobs and Income program addresses these criticisms, and discusses additional policy steps we think should be taken.

We have identified seven major issues: (a) Should we spend more to increase adequacy or less to reduce costs? (b) How should income support and work interrelate and, in particular, should we provide jobs or cash to those expected to work? (c) Should we distinguish between those who are and those who are not expected to work? (d) What should the role of income support programs be vis-à-vis the family? (e) What role should local, state, and federal governments play in income support programs? (f) Should aid to the least fortunate members of society be provided in cash or in kind? (g) Should the poor be aided by programs which provide benefits solely to low income people or by programs which provide benefits to all income classes?

Resolving these issues is not easy. Satisfactory compromises must be devised among conflicting basic values that all members of the community share. The first of these is compassion, wanting to help those less fortunate than ourselves. This ethical commitment is part of our Judeo-Christian ethic, and is embodied in our income support policy. The second vital part of our heritage is the fostering of self-reliance (with its concomitant virtue of independence). Thrift is our third basic value, because, taken together, the costs of all good things exceed our incomes and waste prevents our getting as much as possible for the resources we have. The shape of income support policy at any time is the result of the past compromises among these conflicting values.

Compassion, self-reliance, and thrift are, of course, not the only values and concerns that are at stake in income support policy. But they are the critical ones. As such, while other values are also discussed where appropriate, the conflicts and complementarities among these three values are particularly stressed.

Welfare programs provide benefits only to low income families and individuals. They are not, however, the only programs that benefit the poor. Social insurance programs provide substantial benefits to the poor—more in the U.S. indeed than welfare. What welfare programs should be doing, therefore, is not independent of what social insurance programs are and should be doing. This has been recognized by most experts who analyze welfare programs within the context of the whole income support system. Similarly, educational and work and training programs help the poor earn their way out of poverty and may thereby help reduce the need for welfare programs. Thus, income support policy is but one part of a social policy network that can have profound effects on the well-being of the poor. In addition, how the poor are taxed will affect their current status and their ability to work their way out of poverty. In discussing welfare reform issues, therefore, we will analyze them within the context of income support policy as a whole, and will inevitably touch on some social policy and tax policy issues as well.

Section I discusses how the inevitable conflicts among compassion, self-reliance, and thrift are manifested in the eight major issues in income support policy that we have identified. Section II traces how they have been resolved in the past. Section III analyzes their resolution in the current system. Section IV both presents how the Carter Administration's Better Jobs and Income Programs proposes to shift or maintain the existing balances among them, and our judgements about the desirability of these shifts.

1. Major Issues in Welfare Reform

What do competing philosophical values tell us about the seven major income support policy issues?

Adequacy versus Cost

At any particular time, some members of a community are almost certain to want to increase the adequacy of benefits by spending more and others to reduce costs by spending less. In the United States, the issue of whether to spend more to increase adequacy or spend less to reduce costs is now and has always been a central one in income support policy.

Consider the growth of expenditures on income support programs depicted in Figure 1. As the figure indicates, expenditures grew from 3 percent of GNP in 1947 to 10 percent in 1977. These increases indicate that benefits are becoming more adequate relative to our collective resources. They also signify that costs have increased. People argue passionately

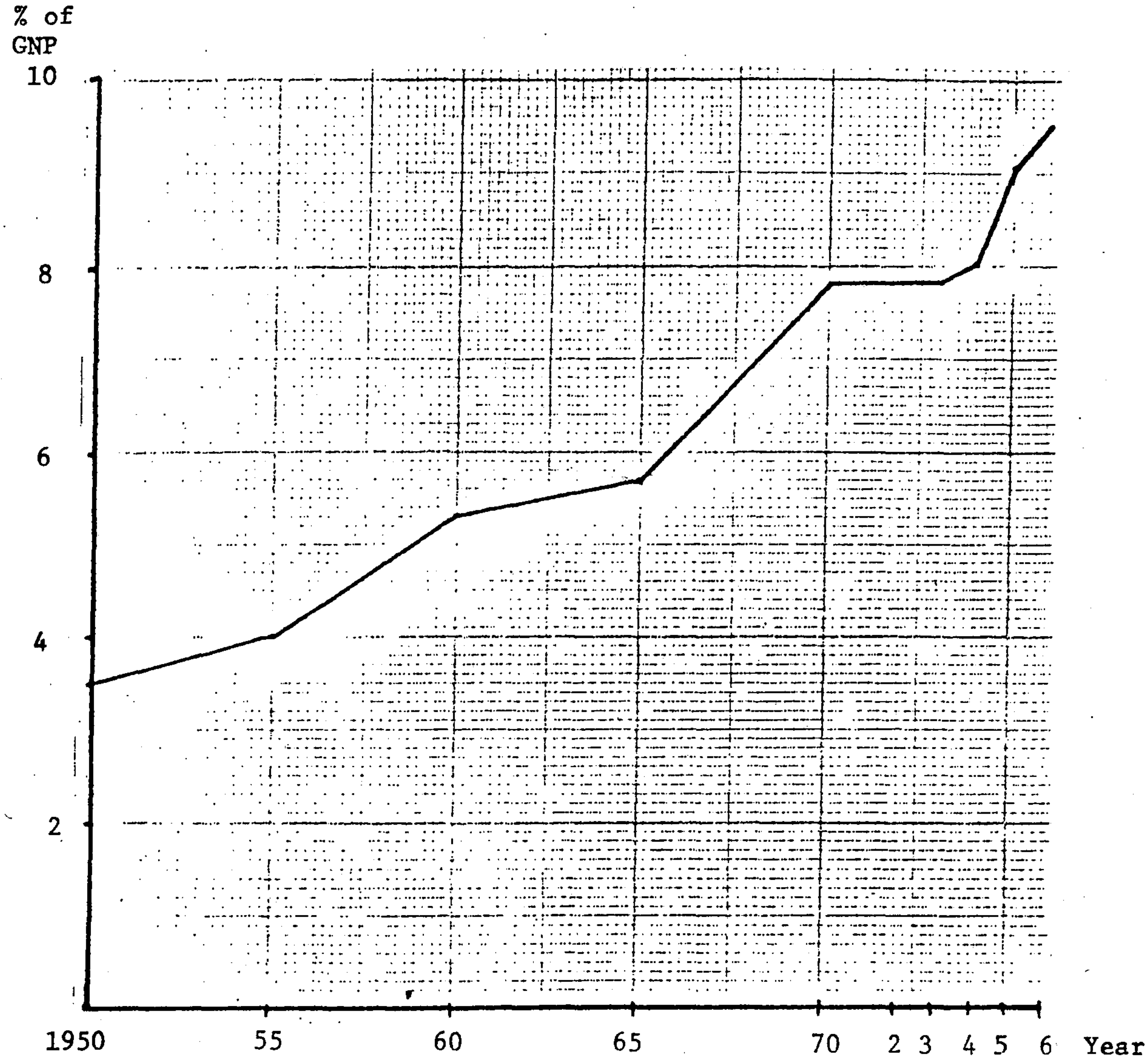

Figure 1: Income Support Expenditures (as % of GNP) 1950-1976

Sources: <u>Economic Report of the President</u>, 1947-1976 (Washington, D.C.: Government Printing Office); and Alfred M. Skolnik and Sophie R. Dales, "Social Welfare Expenditures, Fiscal Year 1976," <u>Social Security Bulletin</u> 40 (January 1977).

Note: Included in income support expenditures are social insurance, public aid, veterans' pensions and compensation, and housing.

whether income support expenditures should be reduced relative to GNP, whether they should be increased, or whether the current ratio is about right. There is probably not a single issue in income support policy more important or more fraught with emotion. It has always been and will always remain a central issue because it is the purest reflection of the inherent conflict between compassion and thrift. Whether it is also at the expense of the middle and lower middle income groups depends on whether the benefit program is universal or income tested (see the discussion on p. 23 below).

The balance struck between cost and adequacy, of course, reflects other compromises and concerns as well. The primary objectives of social insurance programs--like unemployment insurance, for example--are to reduce economic insecurity and to relieve the distress of those who are unfortunate enough to be its victims.[1] To the extent that the nonpoor are conscious that they may become poor, even welfare programs provide this type of insurance and thereby enhance the economic security of the nonpoor. But economic security and self-reliance may conflict. Government, for instance, has the basic responsibility for preventing crime, but actions of individual citizens also prevent crime. In communities with low crime rates, individual citizens become dependent on the government to prevent crime and do little themselves to prevent it. They buy fewer guns and burglar alarms, and are less likely to lock their homes and cars than those living in high crime communities. In communities that assure a high degree of collective economic security, individuals will similarly come to depend on that and do less to assure their own. In addition, some people are more interested in providing their own "anti-poverty insurance" than others. Thus, how much we spend on programs to aid the poor will also represent a compromise between compassion and economic security on the one hand and self-reliance on the other.

There are circumstances in which helping the poor is an unambiguously good economic investment for the nonpoor. Public health programs are an obvious example; reductions in poverty in some circumstances might also pay for themselves through reductions in crime. Any community which did not make this kind of investment would be foolish. Despite significant progress in the social sciences, however, for most specific policies we are still uncertain about whether the benefits will exceed the costs to the nonpoor. Thus, the resolution of the conflict between adequacy and costs also reflects a compromise between those who do and do not believe that more of particular kinds of benefits to the poor are a good investment.

How much a community spends on aiding its least fortunate members will therefore depend upon how compassionate and how risk averse are its members; how resourceful that community is in discovering and inventing programs which both clearly reduce poverty and are good investments for the nonpoor; how political power is balanced between those who want to spend more to increase adequacy and those who want to spend less to decrease costs; and, finally, how well off the community is.

The income or wealth of a community plays a big role in determining where it strikes the adequacy/cost balance. The wealthier people are, the more they can afford to help. Expenditures on public income security programs have increased in the United States and every developed country as income and wealth have increased. In the United States during the last 30 years, for every 1 percent increase in income we have increased our total expenditures on income support by 3 percent.

Work

Next to the concerns of helping the poor and containing costs, nothing has been more important in shaping our income security programs than concern about the effects of these programs on work. The work issue embodies the same conflicts between compassion and thrift, compassion and self-reliance, and self-reliance and thrift.

General considerations. Providing help to the poorest members of society may reduce their own efforts to help themselves and may also weaken the efforts of those who would escape poverty on their own if no help were provided. Such consequences will increase the costs the nonpoor will have to bear. Any income support program will enable beneficiaries to work less if they so desire by providing them with an alternative source of income. Benefit reduction or tax rates in income support programs also induce beneficiaries to work less by reducing the net reward from work. This we know from common sense and from economic theory. But what neither common sense nor economic theory tells us is how large the reductions in work will be.

In the worst nightmares of those who fear that, because of reductions in work, the costs of relieving poverty will be prohibitively higher than first appears, relieving poverty breeds poverty.[2] In their vision, aiding the poor makes not earning enough to escape poverty less painful. As a consequence, less effort is exerted to escape poverty. The number of poor people increases and the number of nonpoor people decreases. The cost of aiding the increased number of the poor is split among a decreased number of the nonpoor. As a result, the cost to the nonpoor of aiding the poor increases again. The relative attractiveness of not being poor diminishes even further. More nonpoor become poor—and so on, until there are a mere handful of the nonpoor supporting the multitude.

Set against this nightmare is the view that human beings by their nature seek challenges to better themselves. As people's basic needs and wants are satisfied, they seek other ends and establish other, often higher, objectives. While people might work less as a result of increases in their incomes, few (if any) would quit work altogether.

What is the evidence? A substantial body of research now indicates that the increases in income from income support programs and the concomitant decreases in the net rewards from work do reduce the hours worked by program beneficiaries.[3] These reductions, according to the evidence, vary by demographic group. Among healthy married men aged 25-64 they are small. Among married women, women who are heads of household, and the aged, they are significantly larger. The evidence also indicates, however, that the extra costs from reductions in work are actually smaller, rather than being several times larger, than the original transfer costs.[4]

This evidence does not really address the very long run concern that underlies the nightmare vision—that over decades and perhaps centuries the "moral fiber" of the nation will gradually degenerate as each succeeding generation becomes less ambitious than the previous one. By the very nature of the evidence needed, of course, we cannot address the validity of the nightmare vision from an empirical point of view. The best evidence we have on work disincentive effects is from the income maintenance experiments which, lasting three to five years only, cannot provide convincing evidence concerning the very long run. Indeed, when the appropriate evidence comes in, we will all have been long since dead. The concern for us, therefore, is not one of economic cost. It must be about which traditions and values we identify with; what kind of community we think we live in; which community we as citizens want to live in, and be proud to be and to have been a part of. The concern, in short, is with moral, social, and community costs.

Providing help and promoting independence frequently conflict. The conflicts and complementarities between security and independence are familiar to all parents. Children need security to grow. But they also require challenges to become independent. Similar issues are involved when our elected representatives make welfare policy.

A nation is obviously not a family. Moreover, although millions of low income people are children, the overwhelming majority are cared for in families headed by adults, almost always their own parent(s). Nevertheless, the analogy is a useful one, if only because many of us reason this way consciously or unconsciously. Most of us hope the community we live in will reinforce the values that we think worthwhile enough to pass on to our children. What we disagree about is where to strike a balance between promoting self-reliance and security for all, and how much we should be prepared to pay.

In many cases, for instance, it is more expensive to help the poor to help themselves raise their incomes than it is simply to give them money. If we did not care about independence we would simply give the poor person the dollar. But we do care. We think of our country as the land of opportunity. We were the first to have universal free public education. We currently spend more on and have greater faith in education than any other country in the world. Even if it turns out to be more expensive to help the poor achieve self-reliance and independence, therefore, we may want to pay that price.

Reinforcing self-reliance conflicts with thrift in an additional way which, though technical, is very important. The more that benefits are confined to the poorest members of society, the cheaper the program will be for the nonpoor. But the more that benefits are confined to the poorest members of society, the less there is to be gained from escaping poverty by members of this group--because helping themselves will cause them to lose the help they would otherwise get from the program. (This problem is discussed on page 22, because it addresses the essential difference between universal and income-tested approaches to income support.)

Jobs versus cash. The most effective, and the financially cheapest way to stimulate self-reliance on the part of the poor who are expected to work is to provide them with no aid whatsoever, or at least no more than necessary to keep them physically able to work. The problem with this solution, for our society at any rate, is that it can be very expensive in moral terms. If there are some (even among those who are expected to work) who through no fault of their own are poor, failing to provide any help represents violation of our ethical commitment to help those less fortunate than ourselves.

Communities in the United States, as a consequence at least in part of this imperative, have always provided some kind of help to the able-bodied poor--although they have debated vociferously over what kind of aid to provide. The big issue has always been work relief versus cash relief. In its more modern guise it is discussed as jobs versus cash.

In a pure jobs program, help is provided only in proportion to the work efforts of the beneficiary. The social message is clearcut and the pressure to be self-reliant unambiguous. Programs which combine jobs and cash reinforce self-reliance correspondingly less. The belief that people are expected to work is not communicated as forcefully or as unambiguously. Providing aid through pure cash programs reinforces self-reliance least. Such programs communicate that, for whatever reasons, society has not committed itself to seeing that those expected to work have the duty or necessarily the opportunity to do so. So, effects on self-reliance of pure jobs, jobs and cash, and pure cash programs are likely to differ. The crucial question, of course, is by how much--particularly over the long run. Unfortunately, we have no evidence on how institutions shape and change long-run norms and expectations.

Jobs programs also provide the opportunity to help the able-bodied poor retain their dignity and self-respect more than can cash alone. There is no evidence that the poor believe in the social ideals of self-reliance and work any less than the rest of us. A jobs program that provides decent jobs to all who want them not only increases the incomes of the poor but also assures them an opportunity to work at a decent job. Our philosophical commitment to compassion adds this attribute to the benefit side of the ledger.

But providing decent jobs to all who want them is not cheap. The more decent the pay, working conditions, and social utility, the more expensive each job is and, more important, the greater the number of jobs which must be created in order to assure a job for anyone who wants one (because more will want one). There are many existing unpleasant and low paying jobs. If the jobs provided in the work program pay more or are in other ways more "decent" than existing jobs, existing jobs holders will want to switch.

If, as has happened on occasion in the past, thrift considerations are given primacy in the conflict, a jobs program can turn out to humiliate and degrade beneficiaries rather than enhance their self-respect. Such abuses of the work house--the stingiest kind of jobs program imaginable--are not only fictionalized in David Copperfield but documented in our history. WPA, in contrast, though coming in for its share of complaints, has never been attacked as involving the kind of humiliation as a condition for aid that was imposed by the work house.

Are jobs programs cheaper than cash programs? Obviously, a very generous jobs program will cost more than a stingy cash program and vice versa. And a jobs program that transfers the same dollar amount to participants as a cash program will cost more because of the higher overhead costs of organizing employment. But the jobs program will almost certainly lead to smaller reductions in work effort, and there will be some useful goods and services produced by the workers who get the jobs. We have some evidence on the magnitude of these extra overhead costs and on the value of output of particular kinds of jobs programs, and some evidence on the labor supply effects of particular kinds of cash programs. What this evidence suggests most strongly is that all these variables are very sensitive to the particular kinds of jobs and cash programs.[5]

The costs of helping different kinds of people earn a decent living also vary tremendously. The relative costs of jobs and cash programs will thus depend upon what kinds of people are being aided. At least part of the reason society does not insist that the disabled, the blind, and the aged work to receive aid is the substantial cost of providing them with the supportive services they would require to be able to earn a minimally acceptable living. By comparison, the costs of providing such jobs to able-bodied men, a group society expects to work, is much smaller. Female heads of families are a group about which society seems at the moment to be ambivalent—in part because the costs of helping them to earn a minimally decent living, while in general not so high as the costs for the severely disabled, are much higher (due to child care) than the costs for most able-bodied men.

The relative costs of jobs and cash programs will, in addition, depend upon whether aid is being provided on a short- or a long-term basis. The shorter the time period the greater the relative cost of providing jobs. The turnover of program participants raises the administrative costs of a cash program by only a fraction as much as it does in a jobs program. This cost differential is further increased because the more rapid the turnover of workers the less, for a given number of job slots, will be the goods and services generated.

Categories

If we cared about neither adequacy, self-reliance, nor thrift, there would be no reason to treat different groups (or categories) of the poor differently. The arguments for treating different groups differently all have to do with these philosophical issues: Some groups command more compassion and are less costly to aid than other groups; some groups have greater needs than others; for some groups concerns about and costs of reinforcing self-reliance are greater than for others. The blind and the severely disabled, for example, have always commanded more compassion than the able-bodied poor. And because they are also fewer in number, they will always be cheaper to aid adequately than the able-bodied poor. Finally, because they are so few in number and different from the rest of us in such obvious ways, the moral costs of excusing them from the obligation to earn their own way is small.

The aged are also less numerous and therefore cheaper to aid than the prime-aged able-bodied groups. The moral costs of excusing the aged from earning their own way is similarly small, because retirement can be rationalized as a reward for the productive work and self-reliance shown in previous years.[6]

Aiding different groups of poor people differently does, however, have economic costs. Ascertaining what group someone belongs to, for example, can entail substantial administrative costs (such as the necessity of a thorough physical examination to ascertain whether or not someone is disabled). Treating different groups differently can also create inequities. And it may create incentives to change behavior in undesirable directions.

Inequities exist when equally needy families are given unequal amounts of aid or when the income positions of families are reversed by benefit payments. To the extent that we believe in fairness, we try to avoid inequities. But doing so may require sacrificing other values. For example, if the disabled are treated more generously than the able-bodied, as is currently the case, a family headed by a long-term unemployed 60-year-old "relatively unhealthy" male will receive less aid than a family of identical income and size that is headed by a "disabled" male. This is not only unfair; it also creates an incentive for the relatively unhealthy male to get himself classified as disabled. If the distinction between the able-bodied and disabled is abandoned, however, either all the able-bodied must be treated as generously as the disabled or the disabled must be treated in as niggardly a fashion as the able-bodied. The first entails decreasing our commitment to fostering self-reliance and the second a reduction in compassion.

The Family

The appropriate role of the family is a central issue in income support policy. Such programs compensate for failures of the family to perform certain economic functions and, in doing so, reduce the costs of family splitting. At the same time, however, they strengthen the self-reliance, independence, and freedom of choice of particular family members.

No institution in our society is generally considered as important as the family. Consider, for example, the aged. When we were a predominantly rural and agricultural society, economic security for the aged was provided principally by the family. Just as parents cared for their children when young, children cared for their parents when old. This arrangement worked best when the parents owned their own farm because, even when they become too infirm to work at all, the farm was an asset that provided the elderly with some independence and power vis-à-vis their children. Even when we were predominantly rural, however, the family did not always succeed in providing for the care of the aged and infirm. In some cases there were no children to provide aid, in other cases the children themselves were too poor to help, and sometimes the children simply refused. During the Middle Ages, the Church provided help when the family failed. Then governments assumed this responsibility. As society became increasingly urban and mobile, it became increasingly common for children to live apart from their parents, family ties were weakened, and the need for public aid increased. By the twentieth century the failure of the family to provide sufficient retirement income to the aged had become so widespread that every industrialized country had adopted an old age insurance or pension program.

The compassion/thrift trade off, of course, is always with us. The more adequately the community provides for the retirement needs of its members, the more costly will such aid be for the nonaged who pay for it in taxes. Moreover, while increasing public provision for retirement needs is a response to the increasing breakdown of the family's ability to perform this function satisfactorily, public provision in turn further weakens the family's ability to perform this role. The more aid that is provided publicly, the less the family (that is, the children) must do. There can be no doubt that if we had no social security program and no welfare program for the aged, children would contribute a great deal more support to their aged parents than is currently the case.[7]

But note that the self-reliance and independence of the aged vis-à-vis their children is strengthened by public income support programs. The incomes they receive from public income support enables the elderly to preserve their independence to some degree. (In this sense, social security performs some of the same functions that farm ownership used to perform.)

An analogous situation applies to female-headed families. Compassion leads us to aid these victims of family breakdown. Thrift limits the generosity of the help we provide. And the more generously we aid female-headed families, the more we undermine intact families. One of the considerations that prevents some women who feel trapped in a bad marriage from leaving, for instance, is the fear of how they will support themselves and their children. (A similar concern and the guilt attached thereto undoubtedly restrains some men as well.) Perhaps even more important, public provision of aid to female-headed families reduces the dependence of women on husbands as a means of support by reducing the economic pressure to find another husband to support them. Aiding female-headed families may weaken the institution of the intact family, therefore, but increase the independence of women.

There are two reasons for concern about the efects on marital stability of aiding single parent families: cost, and the effects on the children. The seriousness of each, of course, depends upon how big the effects of providing aid are on marital stability. In view of all the other factors which affect the success and failure of marriages, it would be surprising if the effects of aiding female heads were very large. The little empirical evidence we have on this is mixed, as is discussed further below.[8] Moreover, we have no evidence on the effects of such marital splits as are induced by aiding female heads on the well-being of the children involved.[9] If the marriage or potential marriage is weak enough for the availability of income support to destroy it, would the children be better off had the marriage survived? The answer is not at all clear a priori.

Local versus Central Financing and Administration

What level of government should be responsible for financing and administering income support programs has been a contentious one for most of American history.

The principal arguments for local control of income support programs are special applications of the general argument for decentralized government. First, the smaller the unit of decision-making power, the greater the chances that citizens can participate directly in self-government. While not identical, the values of self-reliance and self-government are obviously closely related. Second, lodging responsibility in the many local governments rather than a single central government stimulates competition within the government sector. Third, in a country as large and diverse as the United States, what is appropriate policy for one area may be quite inappropriate in another. The South, for example, until quite recently was substantially poorer than the rest of the nation. In 1960 median income in the South was only 70 percent of median income in the non-South; nearly two out of every five individuals were poor in the South compared to about one out of every five in the non-South. In the face of such large inequalities in income, a benefit level that would appear barely adequate in the wealthier states might appear to be a threat to work incentives (self-reliance) in the poorer states.

Several of the arguments for central control are related to compassion.

First, as transportation and communication have improved and our country has become increasingly mobile, the average American's definition of his community, with respect to certain issues like poverty, gradually has broadened to encompass the entire country. Poverty and hunger in Mississippi is of concern to residents of New York and Wisconsin as well as to Mississippi residents and vice versa. Poverty has come to be regarded as a national problem.

Second, when welfare is handled on a local level, the competition stimulated is regarded by many as an unhealthy negative kind of competition. Each state or locality has an incentive either to keep benefits lower than neighboring states or localities so that potential recipients will migrate to the other state (or at least not choose to come to their state) or to refuse to give benefits to nonresidents. The former leads to inadequate benefits for all; the latter inhibits mobility in a society that prides itself on free movement and an economy that depends upon mobility to promote efficiency.[10]

Third, even during recessions, when low income families are most in need of aid, prudent state and local governments seek to balance their budgets. They can least afford to spend additional money on anything when taxes are down. Prudent fiscal policy at the national level, however, does not depend on automatically balancing the budget. During recessions, in fact, appropriate fiscal policy calls for a federal budget deficit. Variations in the needs of low income families over the business cycle are, therefore, more in harmony with federal budget dictates than those of state and local governments.

Finally, it is generally agreed to be inequitable for some jurisdictions to bear a higher share of the national cost of reducing poverty simply because they have a higher incidence of poverty in their midst.

Cash versus In-kind

The independence and self-reliance of the poor is maximized by aiding them with cash rather than in-kind benefits because of the increased freedom of choice. In-kind benefits restrict the choices available to beneficiaries. Food Stamps can be spent only on food, housing subsidies on housing, medicaid on medical care, and so on. Again, however, there are conflicts between self-reliance, compassion, and thrift.

Certain kinds of expenditures, like those for health care, are by their nature irregular. Some people, rich and poor, have very large health needs, others small ones. If a cash payment were made to each of the poor sufficient to take care of medical needs on average, some money would be wasted at the same time that some need would go unmet. In addition, subsidizing health care may be a better investment in strictly economic terms than giving cash, if it leads to reductions in contagious disease. Both thrift and compassion considerations, therefore, argue for subsidization of health care rather than provision of cash.

Public education is another example of an expenditure which both cost and compassion considerations suggest should be an in-kind rather than a cash subsidy. First, the children of the poor generally evoke more compassion than their parents because, whatever one thinks of the moral responsibility argument for adult poverty, poor children are considered blameless for their state. Second, outlays on the children (regarded as an investment) may well have a higher payoff to the community than equal aid to the adult poor. One way to be sure we are investing in the children is to subsidize education (an in-kind benefit) rather than providing the cash equivalent to their parents.

Education and medical care are easy cases. Whether to provide cash instead of food or housing subsidies is more difficult to resolve. There will always be some poor (and nonpoor) who spend their money unwisely. From the community's point of view, therefore, providing cash to such people is wasteful. Providing in-kind assistance ensures that the benefit goes for what the givers regard as suitable purposes. But many of the poor can be counted on to spend their money wisely. The choice between cash and in-kind aid depends upon what proportion of the group being aided would spend their money wisely if given cash, how much difference in actual expenditure patterns will come about through the provision of in-kind aid rather than cash, and the relative costs of providing the aid.

Finally, particular manifestations of poverty, such as hunger and malnutrition, generally evoke more compassion than poverty and low income per se. When this extra compassion is combined with (1) support for particular in-kind programs from producer groups (such as is the case of farmers and food stamps) and (2) lack of confidence in the judgment of the poor on the part of some voters, the political support for in-kind programs can be expected to exceed that for cash programs. As a consequence, even though cash support would do more to promote the self-reliance of the poor, it may not be politically possible to provide as much help to the poor through cash.

Universal Programs versus Welfare

Should benefits be provided to all members of the community alike (universal programs) or should they be restricted to those who need them most (means tested, or welfare programs)? This is a question that pervades the debate about benefit programs. Free public education and social security programs are universal; Medicaid, Food Stamps, and Aid to Families with Dependent Children are means tested.

All welfare (means tested) programs were, until recently, characterized by an individual determination of need. That is, a separate, detailed assessment of the resources and needs of each applicant was made. Benefits were equal to the difference between assessed needs and available resources; and it thus appeared reasonable to reduce the benefits by the full amount of each extra dollar that beneficiaries got. It was also required that assets (such as a house, a car, a life insurance policy and savings) be liquidated and used up before any benefits were provided. Benefits in universal programs were and are, in contrast, based on average or presumptive need. That is, they depend only on a few readily verifiable personal or family characteristics such as age, previous earnings, and number of dependents. There is no detailed investigation of individual resources and needs. Benefits are not reduced by one dollar for each dollar of extra resources--although the work test and retirement tests in unemployment insurance and old age insurance reduce benefits as the earnings of beneficiaries increases. And, there are no assets tests.

Universal programs reflect a broader notion of compassion than income tested programs. Underlying universal programs is the belief that the near poor, and even segments of the middle class, need some help, as well as the very poorest. The problems of the poorest are obviously not unique. They are simply more acute the poorer a person or family is. We may choose to aid only those who are most acutely affected by such problems or we may extend aid to others who suffer but less acutely so. Unemployment, for example, is most severe for the poorest but is often severe even for middle income Americans. The fact that unemployment insurance provides benefits to all Americans rather than just to the poorest reflects the compassion society feels for the unemployed, irrespective of their poverty status.

Another way to put this is that whether a program should be universal or income tested depends in part on our views about how generalizable the problems of the poor are. One of the reasons we provide free public education is that, given the enormous pressures on their limited financial resources, we believe the poor will underinvest in their children's education both from the child's and the rest of society's viewpoint. But because all of us benefit from having a highly educated society and thereby from the education of everyone else's children as well as our own, this will be true of all of us to a greater or lesser extent. Thus, while underinvestment in children's education may be particularly acute for the poor, it is a problem all of us face. Similarly, while the poorest members of society may be under the most pressure to underestimate how likely they are to need savings for a rainy day--in the event of unemployment, disability or, more happily, an unexpectedly long life--all of us are tempted to some extent.

But the greater the number of people who receive benefits, the more costly is the program to nonbeneficiaries. Programs that provide benefits to everyone (such as public education) will be more costly to upper middle income and upper income people than programs which provide equal levels of benefit only to the poorest. The very poorest, the near poor and a fairly sizeable chunk of middle income Americans, for example, all receive greater benefits from public education than they pay in taxes. Consequently, the net costs must be shared among upper middle and upper income people. If we subsidized the education of only the very poor, only the very poor would receive more benefits than they pay in taxes and the costs of the program could be shared among near poor and lower middle income people as well.

Universal programs also promote self-reliance more than means tested ones because they do not reduce benefits as income increases. Means tested programs confine benefits to those at the low end of the income scale by reducing benefits rapidly as income rises. The extreme version of this is to reduce the benefit by the total amount of any other income the beneficiary earns. If benefits are reduced by one dollar for each dollar of other income (that is, each dollar acquired by individual effort), of course, there is no incentive for those who cannot earn more than the welfare benefit level to improve their lot by working. This system is equivalent to taxing income at 100 percent. Welfare programs currently include tax (benefit reduction) rates somewhat lower than this, but the point is the same. If benefits are reduced as income rises the incentive to increase independence by means of such earnings is reduced. (Note that the taxes required to finance the universal program will reduce incentives--but the tax rates on the poor imposed by universal programs will be substantially less than those imposed by a welfare program.)

Universal programs do, however, weaken the self-reliance of the rest of society. Welfare (income tested) programs for the aged, for example, minimize the incentives for savings only among those who expect to be poor in old age. A universal old age pension or an old age insurance program (like our own social security) in contrast, substitutes some public savings for private initiative on the part of everyone in society. Moreover, because universal programs cost more to those wealthy enough to pay taxes, they reduce the incentives to become wealthy more than welfare does.

In choosing between universal and welfare programs, therefore, the community must strike a balance--between providing more generous benefits to near poor and lower middle income families and greater incentives for the poor to become financially independent, on the one hand, and greater costs to the better off with concomitantly weaker incentives to become a member of this group, on the other. Where the community strikes this balance depends upon the political power balance in society, upon notions of fairness, and upon beliefs about whether providing greater incentives to become nonpoor is more or less important to the overall economic well-being of the community than providing incentives to become rich.[11]

2. Past Compromises Among Our Conflicting Objectives for Income Support

An understanding of the current nature of our income support system, how we got there, and why we are where we are, is a prerequisite for understanding where we should go from here. This section examines how we have resolved these conflicts in the past and how the balances struck among conflicting objectives have been changed through recent reform efforts.

The Original Social Security Act

The Social Security Act established the basic framework of our current income support system. We begin, therefore, with an examination of how that act balanced the major issues in income support policy, whether and how that balance differed from previous practice, and what role the Great Depression had in shifting the balance struck among conflicting objectives.

In 1934 President Roosevelt appointed a Committee on Economic Security to design and draft permanent legislation to deal with the problem of economic insecurity. Within six months, the Committee had prepared legislation to be submitted to the Congress. Enacted by Congress in 1935, the Social Security Act created five new income support programs. Two were social insurance programs: Old Age Insurance (OAI) and Unemployment Insurance (UI). Three were welfare programs: Aid to the Blind (AB), Aid to the Aged (OAA), and Aid to Dependent Children (ADC). The two social insurance programs were federally financed and administered. The three welfare programs were funded jointly by federal and state governments (and locally as well in most states, at least initially) and administered by states and localities.

These new programs substantially increased our commitment to provide adequate aid to the aged, unemployed, blind, and dependent children. The magnitude of the increased commitment was not fully reflected in the initial increases in benefits paid because the OAI program needed time to mature before it began paying out substantial benefits. Even so, expenditures on these programs were $1.1 billion in 1936 and $2.4 billion by 1940. Perhaps even more important, the Social Security Act established a framework to build on. Its architects viewed it as only a beginning and fully expected it to be expanded gradually over time.[12]

The Great Depression obviously played a critical role in heightening compassion for the victims of our economic system. So many people were unemployed and it lasted for so long--an average of 18% of the labor force was unemployed from 1930 thru 1940--that nearly everyone in the country knew someone else personally who had suffered from the Depression. Under these circumstances it is difficult to blame the poor for their own poverty. The Depression also undoubtedly convinced many that the chances of becoming poor were higher than they had previously thought. Finally, so many who were normally self-reliant and independent could no longer make it without help during the Depression that the general faith in self-reliance was shaken.

Even before the Depression, however, we were gradually shifting in these directions at the state level. The first state Workmen's Compensation was passed in 1908, the first Widow's Pension in 1911, and the first Old Age Pension in 1923. By the Depression all but a few states had Workmen's Compensation, more than half of the states had

Widow's Pensions, and seven states had Old Age Pensions. Further evidence of change in the wind is that all of the Western European industrialized nations already had social security programs before the onset of the Great Depression. The underlying causes of the development of income support programs in this country as in others were related to increasing industrialization and urbanization. Increases in income and increases in the political strength of the labor movement also were key elements.

The basic design of the Social Security Act reinforced the commitment to self-reliance and the central role of work in our society. It did, however, also shift existing compromises on the work issue (although not substantially) by permitting some groups in very special circumstances to work less.

The Old Age Insurance Program, for example, was designed to get the aged out of the labor market. Benefits were available only if the beneficiary was retired. But coverage under OAI depended upon previous labor force attachment and benefits were related to previous earnings. People without a good labor market history were thus not eligible. The Unemployment Insurance Program also provided benefits to those without jobs, but again strong previous attachment to the labor force was a prerequisite for coverage under UI. Beneficiaries were, moreover, required to accept suitable employment offers, and the benefits under UI were designed to be only short-term. The AB, OAA and ADC programs provided cash aid without requiring the aged, blind, and mothers of dependent children to work, but (except for female heads of families) there was no cash relief program for the able-bodied poor.

The Committee on Economic Security had recommended a permanent federal work relief program to provide aid to the able-bodied long-term unemployed. But Roosevelt separated the work relief proposal from the rest and sent it to Congress in another bill. It was not enacted into legislation, and during World War II the WPA, the major Depression work relief program which had always been temporary, was allowed to die.

The traditional distinction between employables and unemployables, therefore, was not just continued in the Social Security Act, it was made a foundation of the Act. The two social insurance programs and the work relief program not enacted were designed for employables; the welfare programs were for those with no labor force attachment. To quote from the Report of Committee on Economic Security, "The measures we suggest all seek to segregate more clearly distinguishable large groups among those now on relief or on the verge of relief and to apply such differential treatment to each group as will give it the greatest practical degree of economic security."[13] This categorical approach, treating different groups of people differently, continues to characterize our income support system to this day.

The new social insurance programs also reduced somewhat reliance on the family to provide help to those in distress. The most notable change was in the OAI program, in which benefits to the aged were not conditional on the ability of the children to support their parents. In the welfare programs, however, relative responsibility still played a big role. In many states, for instance, the aged had to cooperate with the state in suing their children for support as a condition of getting Old Age Assistance benefits. From time to time female heads have had to cooperate in a similar way in securing support payments from the absent fathers of their children. Indeed, until the early 1950s, court ordered child support payments were counted as income available to the family whether or not the payments were actually made.

Although all the programs created by the Social Security Act were cash programs, this did not reflect a judgment on the part of the Economic Security Committee or Roosevelt that there was no role for in-kind benefits. Education, of course, was already provided publicly--but by state and local governments rather than the federal government. In addition, the Economic Security Committee had recommended a National Health Insurance Program. Roosevelt did not include in it the package because he feared that the opposition of doctors to a national health insurance program might jeopardize the entire Social Security Act.[13a] Finally, there was a variety of in-kind programs during the New Deal, most prominently Public Housing and the beginnings of a Food Stamp program.

The assumption of federal responsibility for income support was perhaps the most dramatic break with past tradition in the Social Security Act. Before 1932 the federal government had not assumed any responsibility for providing aid to low income citizens--except for War Veterans. Yet even before the Depression there was an unmistakable trend towards higher levels of government assuming increasing responsibility in this area. Whereas relief programs were initially financed and administered by local governments, by 1930 most states had assumed at least some responsibility for both financing and administering them. Even without the Depression this trend would probably have culminated in federal involvement, but there can be no doubt that the Great Depression substantially accelerated the timing. State and local governments and private charities were simply overwhelmed by the numbers of people who needed help.

The Social Security Act was, in fact, not the first federal response to the inability of state and local governments to cope with the crisis. While Hoover was still in office in 1932, Congress had enacted the Emergency Relief and Construction Act which authorized loans to states for relief purposes. While this particular Act had little effect, in part because many states were already too close to the lending limits imposed by their constitutions to take advantage of it, the Act did establish the principle that the federal government could act in this area under the general welfare clause of the U.S. Constitution. The Federal Emergency Relief Act enacted in May 1933, two months after Roosevelt's inauguration, authorized the federal government to provide $500 million to states and localities for relief. By the time the Social Security Act was enacted, therefore, there was a precedent for federal involvement. What was novel was that the programs created by the Act were permanent, rather than temporary programs to deal only with the period of the Depression.

With the exception of the Old Age Insurance program, the new programs continued to give the states prominent roles. Benefit levels and eligibility conditions in the UI, AB, ADC, and OAA programs were to be determined by the states. The states were also given responsibility for administering them. Thus, while the Social Security Act broke from previous tradition in the roles of federal vis-à-vis state and local governments in income support policy, the break was hardly a rupture.

The social insurance programs in the Social Security Act were considered both more important and more appropriate kinds of assistance than the welfare components of the Act. The rationale for the Old Age Assistance Program was to provide aid to the then current aged poor who had not contributed to and were therefore not eligible for the Old Age Insurance Program. As the Old Age Insurance Program matured, it was fully expected that the number of beneficiaries of Old Age Assistance would dwindle. The welfare programs for both the blind and dependent children were also expected to remain small. Its creators viewed the latter as a program for aiding widows. No one envisioned the growth in divorce and desertion that was to convert the Aid to Dependent Children's program from a minor, relatively uncontroversial, program into the focal point of the welfare reform debate in the 1960s and 1970s.

Creation of the social insurance programs therefore did dramatically shift the balance between universal and welfare cash transfers. Again, however, the states were already beginning to move in this direction through Workmen's Compensation laws. And even more important if in-kind programs are considered, we had already instituted universal public education about a century before the Social Security Act.

Between the New Deal and War on Poverty

During the period between 1935 and the War on Poverty, the income support system gradually expanded. More aid to more groups was provided at increased cost. The role of the federal government became gradually larger. There were some attempts to reduce the role of welfare by expanding the role of social insurance. By the early 1960s, the AFDC program had already become the focus of controversy about welfare reform.

Gradual expansion. The first major reform of the Social Security Act came in 1938, when Old Age Insurance was modified to promote the reduction of poverty and reduce reliance of the aged on welfare. Social

Security benefits were extended to survivors (the Survivors' Insurance Program) and dependents of covered workers. Retirement benefits were tied to earnings over a minimum covered period rather than lifetime earnings. And a minimum benefit unrelated to covered lifetime earnings was also introduced into the system. These reforms permitted benefits to be paid to those then currently retired which far exceeded the value of their taxes, or contributions, to the system. It was hoped, as already mentioned, that the Survivors' Insurance Program would in time reduce the need for Aid to Dependent Children and that making the Old Age Insurance Program more effective in reducing poverty would reduce the need for Aid to the Aged.

After the second World War President Truman proposed a national health insurance program, but he was unable to gain the support of a majority in Congress. The result of this failure was to shift the debate in the 1950s from whether or not to have a universal national health insurance program to the issue of a health program for the elderly.

In 1950, the Social Security Act was again amended to add a new categorical welfare program--Aid to the Permanently and Totally Disabled (APTD). States and localities had always provided aid to the disabled. The new program provided some federal funding and a minimum of federal regulation. Benefits and eligibility conditions were left in state hands. The 1950 amendments also liberalized the Aid to Dependent Children Program by providing benefits to the caretaker (usually the mother) of the children as well as to the children themselves. In 1956 a further amendment created the Disability Insurance Program.

In May 1961, the Social Security Act was amended again--this time to extend the AFDC program on a temporary basis to dependent children of unemployed parents. Its objective was to relieve the distress due to unemployment by extending welfare aid to fathers, and thus help keep families together. In January 1961, 5.4 million people were unemployed--the largest number since World War II. Nearly 3 1/2 million people were receiving UI benefits and another 1/2 million of the unemployed had already exhausted their eligibility for such benefits. Then Secretary of Health, Education, and Welfare (currently Senator) Ribicoff stressed the family stability issue in his testimony to Congress:

> There is a grave need here [for the passage of this bill], because what we are trying to do with ADC is keep families together. And certainly we should not, as a society, so conduct our programs as to discourage a family grouping or to encourage a parent to leave the home in order for his children to receive aid in their basic needs.[14]

<u>AFDC becomes controversial and the 1962 Amendments</u>. During the late 1950s it became apparent that the AFDC program was not disappearing despite the existence of Survivors' Insurance. It therefore came under increasing criticism for promoting dependence. In 1961, a city manager in Newburgh, New York asserted that the welfare rolls were filled with loafers and cheats and initiated a 13-point program that included a 3-month limitation on all relief payments except to the handicapped and aged, and issuance of food, rent, and clothing vouchers instead of checks. The New York State Board of Social Welfare declared that these proposals violated state and federal law. Overnight, the Newburgh controversy became a national issue. The <u>Wall Street Journal</u> editorialized, "It's a fine commentary on public morality in this country when a local community's

effort to correct flagrant welfare abuses is declared illegal under both state and federal law."

It was against this background that, in February 1962, President Kennedy delivered the first presidential message to Congress that was solely on the subject of public welfare. In that message he asked Congress to pass legislation which among other things was designed to (1) reduce fraud, (2) help localities locate absent fathers, (3) provide social services to "rehabilitate" welfare mothers, (4) establish community work and training programs, (5) provide seed money to communities for initiating day care programs, and (6) increase incentives to work. The principal objectives of all of these proposed changes were to reduce caseloads and costs. The President noted:

> Communities which have--for whatever motives--attempted to save money through ruthless and arbitrary cutbacks in their welfare rolls have found their efforts to little avail. The root problems remain.
>
> But communities which have tried the rehabilitative road--the road I have recommended today--have demonstrated what can be done with creative, thoughtfully conceived and properly managed programs of prevention and social rehabilitation. In those communities families have been restored to self reliance, and relief rolls have been reduced.

Congress passed virtually all the Amendments requested by the President. Prior to 1962, welfare payments in most states were reduced by one dollar for each dollar earned by recipients (the 100 percent tax or benefit reduction rate discussed in the previous section). Because of expenses incurred by working--transportation, for example--a recipient was actually frequently worse off financially if he or she worked. The 1962 Amendments required that the states deduct work related expenses from earnings before reducing benefits. While this amendment insured that recipients who worked would not be worse off, it did not insure that they would be better off. The day care provision included only $5 million of federal money. The federal government also provided only 50 percent of the administrative costs of the community work and training projects and none of the supervision materials and training costs. In contrast, the federal government paid 75 percent of the costs of social services. So states and localities expanded social services but not work and training programs.

The 1962 Amendments did not have the intended effects. Caseloads and costs continued to increase. As a consequence, attempts to cut AFDC caseloads and costs persisted even in the midst of the tremendous growth in other income support programs generated by the War on Poverty.

The Era of the War on Poverty and the Great Society

Just as the Great Depression had accelerated developments in income support policy in the 1930s, a combination of events led to a similar acceleration during the 1960s and early 1970s. The Civil Rights movement heightened the awareness of Americans to social injustice in the country and also increased the political power of one of the poorest segments of our society. The assassination of President Kennedy created a great deal of sympathy for carrying out his legislative programs. Within this context, in March 1964, President Johnson declared his War on Poverty. While the Economic Opportunity Act enacted by Congress in late 1964 did not expand or make any direct changes of consequence in our income support system, it did create a series of education and employment and training programs such as Head Start, Jobs Corp, Neighborhood Youth Corps, Work Study, Upward Bound, and the Work Experience Program for AFDC mothers. This emphasis on employment and Training reinforced that of the Manpower Development Training Act passed in 1962 under President Kennedy. By 1973 many of these employment and training programs were pulled together under the Comprehensive Employment and Training Act (CETA). They began on a very small scale, but in fiscal 1977 we spent $10 billion on CETA.

The War on Poverty, in addition to direct program creation, had a profound indirect effect on income support policy. By declaring a War on Poverty President Johnson had elevated the question, "What does it do for the poor?" to a test for judging government interventions and for orienting national policy.[15] Moreover, the Office of Economic Opportunity (OEO) created by the Economic Opportunity Act served as an advocate of the poor within government and thereby helped keep this question on the nation's agenda.

Very soon after Johnson's declaration of War on Poverty several important new in-kind social insurance and welfare programs were passed, and a series of liberalizations of the OASDI program was initiated. In 1964 Congress enacted the Food Stamps Program, and in 1965 Medicare, Medicaid, the Elementary and Secondary Education Act, and the Higher Education Act. Finally, in 1968 President Johnson established a Presidential Commission on Income Maintenance.

Food Stamps. In 1939, towards the end of the Great Depression, an experimental food stamp program was developed in Rochester, New York. Being phased out in 1943, "the first food stamp program served approximately 4 million persons annually, at a total cost of $261 million."[16] In 1960, a few pilot food stamp programs were again initiated, this time by the Kennedy Administration. Legislation in 1964 established the program, but contained authorizations for only two years. In 1967, Johnson requested a permanent extension, but Congress only extended it another two years, and continued to extend authorizations for two to three year periods until 1973 when the program was made permanent. But, while the program began on a very small scale and grew only gradually between 1964 and 1971 (somewhat more rapidly after that) it also grew steadily. Congress has continually liberalized the program until, by fiscal 1977, expenditures on Food Stamps reached $4.5 billion.

Medicare and Medicaid. During the 1960 Presidential campaign, what kind of medical care to provide for the aged became a hotly debated issue. Kennedy (and Johnson) favored a social insurance approach, Nixon a welfare approach. Congress in 1965 passed a social insurance medical care program for the aged called Medicare, and a welfare-type program for those of all ages called Medicaid. Unlike Food Stamps and the education, employment, and training programs, Medicare and Medicaid began as major programs--expenditures in fiscal 1967, their first full year of operation, were $3.0 and $2.5 billion, respectively. Costs in both programs have also increased dramatically, to $21.2 billion for Medicare and $17.2 billion for Medicaid in fiscal 1977.[17]

The Elementary and Secondary Education Act and Higher Educational Opportunity Program. The Elementary and Secondary Education Act of 1965 was designed primarily to improve the education of children from poverty backgrounds. It instituted for the first time in our history federal aid to education. Title I of the Act allocated funds to states on the basis of the number of children from low income families. Initially the program was funded at about $1 billion. In 1975, total expenditures equaled $1.5 billion.

In 1965 Congress also passed the Higher Education Act. Title IV created a new program of educational opportunity grants which provided federal scholarship assistance to needy students. Amendments in 1972 changed the name of the program to the basic educational opportunity grants (BEOG) program and liberalized it somewhat. Again, while starting small, the program grew gradually but steadily. In fiscal 1977, expenditures were $1.8 billion.

Social Security increases. In 1965 Congress provided a 7 percent across the board increase in OASDI benefits. In 1967 President Johnson requested a 15 percent across the board increase in order to lift 1.4 million of the aged out of poverty and remove 200,000 aged from the welfare rolls. Congress enacted a 13 percent increase and went on to increase benefits by 15 percent in 1969, 10 percent in 1971, and 20 percent in 1972. The 1972 Amendments also tied future social security benefits for the first time to the cost of living.

The President's Commission on Income Maintenance Programs. The Commission on Income Maintenance, established in 1968, was charged with studying the income needs of poor Americans, examining all existing Government programs designed to meet those needs, and making just and equitable recommendations for constructive improvements. This was the first Commission to be appointed since the Economic Security Committee with such a broad mandate.

The President's Commission, which issued its report in November 1969, concluded that existing welfare programs were inadequate, inequitable, and inefficient. The most serious criticism of existing programs was that none of them provided income supplementation to the working poor. The Commission noted that income maintenance policy had hitherto been based on the assumption that the labor market could be counted on to provide adequate incomes to those expected to work--an assumption that had proved to be false. In 1969, about a third of the poor lived in families with a head that worked full-time. Another third lived in a family where the head had at least some work experience. This failure to cover the working poor was not only the most singular inadequacy of existing programs. It also led to inequities and encouraged the real or feigned break-up of poor families, because AFDC paid benefits which, in many instances, increased the incomes of families without a male breadwinner to levels higher than those achieved by families with one.

The Commission recommended that the existing set of categorical federal/state welfare programs be replaced with a single noncategorical, federal program in which eligibility and benefits would depend only upon income and family size. The recommendations called for payments of \$750 per adult and \$450 per child (or \$2400 for a family of four with no other income). This was equal to about two-thirds of the poverty level in 1969. Benefits were to be reduced by 50¢ for each dollar earned.

It is interesting to note that the plan recommended by the Commission did not contain a work requirement. Rather, the Commission argued that work tests were ineffective, costly to operate, and unnecessary in view of the positive work incentives in their plan. They also made a point of noting their belief in the poor's commitment to the work ethic--the first public body to make such a judgment explicitly.

The War on Poverty: A summing up. In what ways did the War on Poverty and legislation spawned by it change the balance struck among conflicting objectives in income support policy? Most important, the gradual shift towards providing more adequate benefits that had been taking place since enactment of the Social Security Act in 1935 was hastened. Additional emphasis was also placed on work and self-reliance. For the first time the federal government assumed a major role in financing education and personal medical care. In fact, emphasis on in-kind benefits generally increased. Finally, a large number of new income tested programs was enacted, although expenditures on these new programs were dwarfed by Medicare and increased expenditures on OASDI. Finally, in addition to the achievements of specific programs enacted during this period, the emphasis on compassion and the commitment to reduce poverty had an influence on legislation throughout the 1970s.

The Family Assistance Program

Background. While the major emphasis of the War on Poverty and the President's Commission on Income Maintenance was on compassion, in 1967 Congress had tried to reform AFDC in order to cut costs and promote self-reliance. First, a freeze on the rolls was enacted, although dropped before it took effect. In addition, Congress passed the Work Incentive or WIN Program. This program was designed both to reduce costs and to increase self-reliance by increasing the number of AFDC mothers who worked, through a combination of incentives and coercion.

These amendments to the Social Security Act increased the incentives of AFDC mothers to work, by requiring the states in calculating benefits to ignore the first $30 of earnings per month plus 33¢ of each dollar earned in excess of $30 per month as well as all work related expenses and to reimburse child care expenditures. For the first time, all AFDC mothers clearly had something to gain economically by working. And women with no children under age 12 were required to enroll in WIN for training or direct job placement. If they refused without good cause their grant could be reduced.

For a variety of reasons, WIN had little effect. To begin with, most AFDC recipients never participated in WIN. Of 2,664,000 persons assessed through fiscal 1971, for example, only 286,000 were actually enrolled. Of these, only 36,000 had successfully completed training and had been working in a job for up to six months. Lack of child care facilities, transportation difficulties and, most important, a lack of jobs contributed to WIN's failure to have much effect on caseloads and costs. Moreover, while the work incentive provisions made it more attractive to work it also, by increasing the amount of earnings she could have and still qualify for benefits, made it more difficult for an AFDC mother to work her way entirely off welfare. On balance, therefore, while the work incentive provisions of the 1967 amendments increased the work and independence of some AFDC mothers, it actually increased rather than decreased costs.[18]

The proposal. Against this background, on August 8, 1969 President Nixon gave a nationally televised address on the need to reform our welfare programs. He was particularly critical of the AFDC program: "It breaks up homes. It often penalizes work. It robs recipients of dignity. And it grows." Nixon proposed to scrap the AFDC system and substitute a Family Assistance Plan (FAP). FAP would have extended eligibility to intact as well as split families with children. Benefits were to be $500 for the first two family members and $300 for each additional family member. Benefits would be reduced by 50¢ for each dollar of earnings in excess of $60 per month. (The first $60 of earnings were disregarded as work related expenses.) Food stamps were to be retained. Combined benefits from food stamps and FAP would have been equal to about $2500 for a family of four--virtually identical to the benefit level proposed by the President's Commission on Income Maintenance and (as a proportion of the poverty level) to that proposed in the Carter Administration's Better Jobs and Income Program.

FAP contained at least some elements designed to promote self-reliance. It did, for instance, have a work requirement. Employable family members who refused to accept training or employment were to lose their share of the family's benefit. Key Nixon advisors and perhaps Nixon as well, however, believed the work test would be ineffectual and included it only to "appease" those who might be unduly concerned about self-reliance.[19] As originally proposed by the President, FAP had no jobs component. But training opportunities were to be provided for an additional 150,000 welfare mothers, and child care facilities provided for an additional 450,000 children in families headed by welfare mothers.

The federal government was to be responsible for administering the federal FAP payment. States were to be required to supplement federal payments so that existing AFDC beneficiaries would not be made worse off. Finally, the Nixon Administration proposed to establish a federal minimum payment in the adult public welfare categories--Aid to the Blind, Aid to the Disabled, and Aid to the Aged--of $65 per month. It also called for these programs to be combined administratively.

The total cost of this program was estimated by the Nixon Administration to be $4 billion over and above existing welfare costs. Of this, $2.5 billion was attributable to cash payments to families; $0.4 billion to the federal minimum payments to adults; $0.6 billion for training and day care; and $0.5 billion for fiscal relief and miscellaneous other costs.

FAP would have increased caseloads by 14 million and costs by $4 billion in its first year of operation, but the Administration argued that, if benefit levels were held constant, costs and caseloads would decrease over time as earnings increased due to economic growth. This projected decrease was contrasted with an extrapolation of current growth rates in AFDC caseloads and costs--growth rates that had resulted in part from increases in benefit levels.

<u>The fate of FAP</u>. Although FAP was criticized by some as being inadequate and stingy and by others as being profligate and destructive of incentives, the Family Assistance Act was passed by the House of Representatives in April 1970. Wilbur Mills, powerful chairman of the House Ways and Means Committee, and John Byrnes, ranking Republican on the Committee, had cosponsored the bill after holding Committee hearings on it. Mills' support in particular was critical. The vote was 243 to 155.

The bill did not fare as well in the Senate. During Senate Finance Committee hearings, concern over work disincentives derailed the momentum that had been building for FAP and eventually led to its defeat. Senators Russell Long and John J. Williams--the former Chairman of the Senate Finance Committee and the latter a Republican from New Jersey--noted severe work disincentives in the bill. When the benefit reduction rates from state supplementation of FAP combined with those from other benefit programs (such as food stamps, public housing, and Medicaid) and the tax rates from social security and federal and state income taxes, were all added to the 50 percent benefit reduction rate in the federal portion of FAP, tax rates on female heads frequently approached 70 percent. Opponents were also able to demonstrate instances where families would actually be worse off if they increased their earnings. While all these instances were the result of existing legislation and therefore not attributable to FAP, FAP did not cure them. After relentless and embarrassing questions on these anomalies, the Administration agreed to revise its FAP proposal to eliminate these severe work disincentives.

The Nixon Administration welfare reform planners were faced with a difficult dilemma. To eliminate these anomalous situations required either increasing the tax rates on the overwhelming majority of welfare families, or reducing in-kind benefits to many families, or substantially increasing the costs of welfare reform. Medicaid played a key role here. Full Medicaid benefits were available to AFDC families irrespective of their income up to the point where they lost eligibility for AFDC. Thus, the cost of losing AFDC eligibility by earning one more dollar included the loss of all Medicaid benefits. A solution to this required either (1) eliminating the Medicaid program, (2) reducing health care benefits gradually as income increased, or (3) providing health care benefits unrelated to income--in effect a universal national health insurance program. The Nixon Administration chose the second option. But reducing health care benefits gradually as income increased added yet another tax rate on the poor to the existing 50 percent tax rate in FAP. A similar proposal to eliminate the sudden losing of all benefits in the Food Stamp Program also increased tax rates faced by the poor. When hearings resumed, the Senate Finance Committee staff produced charts showing that the revised FAP proposal actually decreased the incentives of AFDC beneficiaries to work. For example, the staff estimated that in New York an AFDC mother with three children who moved from unemployment to full time work at the minimum wage would have retained 50¢ of each dollar earned under the current (June 1970) law but only 30¢ if the revised FAP proposal passed.

Thus, while the Administration was selling FAP in large part on the basis of its alleged improvement in work incentives, opponents of the bill were able to show that in many cases work incentives were reduced. Senators concerned with the work issue were also dissatisfied with the absence of any job creation efforts in the FAP bill. They argued that the WIN experience indicated that training alone was insufficient. For these and other reasons the Senate Finance Committee voted against sending the FAP bill to a vote by the Senate.
In 1970, a revised version of FAP (HR1), including a jobs component this time, again passed the House of Representatives and again failed to get through the Senate Finance Committee.

Despite the failure of FAP, several important changes did come out of this legislative initiative--most importantly the Supplemental Security Income Program, some major revisions in the Food Stamp Program, the Earned Income Credit and two major governmental studies of the welfare system.

Post-FAP Developments

The Supplemental Security Income Program. Although most of the attention and controversy over FAP was centered around the proposed provisions for families with children, FAP also included, as noted above, provisions for a federal minimum payment in the three adult categorical welfare programs (the aged, blind, and disabled) and administrative consolidation of these programs. The Congress in 1972 went even further than the President had proposed. They created the Supplemental Security Income (SSI) Program to take effect in 1974 as a substitute for the existing adult categorical programs.

SSI established for the first time a federal minimum income for the aged, blind, and disabled of $1752 per adult and $2628 per couple. This amounted to about 75 percent of the poverty level for a single individual and almost 90 percent for a couple. Also, for the first time benefits in a welfare program were indexed to the cost of living. Finally, in an attempt to reduce the stigma associated with welfare and gain some of the respectability and public support of the social security programs, the program was called the Supplemental Security Income and the Social Security Administration was given responsibility for its administration.

Food Stamp Reforms of 1971 and 1973. The Food Stamp Program has grown from a small pilot or demonstration program into the country's first non-categorical welfare program entitling all Americans to a uniform nationwide minimum income guarantee--in food purchasing power. In 1971, the program was amended to provide national eligibility standards and benefits. Households were required to spend no more than 30 percent of their income for food stamps, and households with little or no income were given stamps rather than being excluded from participation by the purchase price. While the 1971 amendments provided more generous benefits, they also added a work test to the program. Further amendments in 1973 extended the Food Stamp Program to all areas of the country as of July 1, 1974. The 1973 Amendments also tied benefits and income eligibility limits to increases in the cost of food--thereby becoming the second welfare program (after SSI) to be indexed to the cost of living. Since 1973, in fact, the Food Stamp Program benefits have been more generous than the benefits for the working poor contained in the FAP proposal. As a consequence of these developments and also of the 1974-1976 recession, program caseloads and costs have increased dramatically--from 6.4 million people and $0.5 billion in 1970 to 17.7 million people and $4.5 billion in fiscal 1977.

The earned income tax credit. In rejecting Nixon's Family Assistance Program, the Senate Finance Committee came up with a welfare reform proposal of its own. While the proposal taken as a whole fared no better than FAP, key features of it were embodied in successful legislation, as in the case of FAP. In particular, a variant of the earnings subsidy proposed in the Senate Finance Committee Report eventually did become law as part of the Tax Reduction Act of 1974. This earned income credit entitles families with children to benefits of 10¢ for each dollar earned up to $4000 of earnings, for a maximum benefit of $400 per year. Earnings in excess of $4000 benefits are reduced at a rate of 10¢ on the dollar. At $8000 of earnings, therefore, benefits are reduced to zero. As such it is a subsidy to earnings below $8000.

Part of the reason that the earned income credit was able to pass the Congress was that it was able to attract support both from those most interested in increasing work incentives and from those interested in providing more aid to the poor. The earned income credit does not fit the universal/income-tested dichotomy. Rather, it is a hybrid. Its benefits go to low income people, but they are processed by the Internal Revenue Service within the personal income tax framework which, in principle, applies to all of us. Benefits are based on presumptive need and there is no assets test.

Studies by the Subcommittee on Fiscal Policy and HEW. Shortly after the defeat of the Family Assistance Program in 1971, the Subcommittee on Fiscal Policy of the Joint Economic Committee of the Congress, chaired by Representative Martha Griffiths, undertook a comprehensive study of the public welfare system in the United States. After three years of intensive work, in December 1974 the committee issued its final report, entitled Income Security for Americans: Recommendations of the Public Welfare Study.

At the same time, civil servants in the Office of Income Security, under the supervision of the Assistant Secretary for Planning and Evaluation of the Department of Health, Education, and Welfare, were also studying the public welfare system and developing a welfare reform proposal. The recommendations of these two major studies, while far from identical, had much in common with each other and with the recommendations of the earlier Presidential Commission on Income Maintenance appointed by President Johnson and, with one major exception, with the Carter Administration's proposed Better Jobs and Income Program.

Both studies called for the replacement of the AFDC and Food Stamp Program with a single federal cash program that would provide aid to intact as well as to split families. The benefits to a two-adult-two-child family with no other income were similar in the two plans--$4400 per year and $4325 per year, respectively, in 1978 dollars. These benefit levels are equal to about 2/3 of the poverty line. The benefit reduction rate in each program was 50 percent.

While the HEW proposal had a work requirement, the Subcommittee plan did not. Unlike the Better Jobs and Income Program, neither plan had any job creation provisions. Nor were they adopted in any legislative thrust.

This, then, is the history of America's income support initiatives since passage of the original Social Security Act. This history, of course, has produced the system we now have. The next section (Section III) provides a brief overview of the current income support system of the United States, describes its achievements, and notes the shortcomings that result from the way the inevitable compromises have been worked out along the way.

3. The Current System: Achievements and Criticisms

Currently, there are over 40 separate programs which together constitute the income support system in the U.S. Table 1 presents, for fiscal year 1977, the estimated expenditures of the most important ones.

Total expenditures for fiscal 1977 are estimated to be $185.5 billion, amounting to about 10 percent of GNP and about 45 percent of the total federal budget. This is a substantial sum although, by comparison with other Western industrialized countries, not excessive. Average expenditures in the European Economic Community countries in 1972 amounted to about 11 percent of GNP.[20]

Several other characteristics of the current system stand out in Table 1. First, the system is clearly a categorical one. There are separate programs for single parents of families, veterans, the aged, blind, and disabled, students from poor families, and the working poor. Most, though not all, of this categorization is a response to the work issue--an attempt to separate out and treat differently those who are expected to work from those who are not. All the social insurance programs are closely tied to previous labor force attachment. Of these, only the UI program aids those expected to work, and even in this case the aid provided is normally short term (though during the recent recession Congress extended the maximum period to well over a year). The earned income credit and several of the recently enacted welfare programs--most notably food stamps and housing assistance programs--also provide aid to those expected to work. Whereas the President's Commission on Income Maintenance found in 1969 that the working poor were systematically

Table 1. Estimated Benefit Expenditures for Major Income Support Programs, Fiscal Year 1977

Program	Federal	State and Local	Total
TOTAL	163.8	21.7	185.5
SOCIAL INSURANCE	127.1	6.7	133.8
Cash benefits			
Old age and survivors and disability insurance and railroad retirement	84.1	...	84.1
Special compensation for disabled coal miners	0.9	...	0.9
Unemployment compensation[b]	15.2	...	15.2
Veterans' and survivors' service-connected compensation	5.7	...	5.7
Workmen's compensation	...	6.7	6.7
Total	105.9	6.7	112.6
In-kind benefits			
Medicare	21.2	...	21.2
REFUNDABLE TAX CREDITS			
Earned income tax credit	0.9	...	0.9
WELFARE	35.8	15.0	50.8
Cash benefits			
Aid to families with dependent children	5.7	4.6	10.3
Supplemental security income	4.7	1.6[a]	6.3
Veterans' and survivors' non-service-connected pensions	3.1	...	3.1
General assistance	...	1.3	1.3
Total	13.5	7.5	21.0
In-kind benefits			
Food stamps	4.5	...	4.5
Child nutrition and other Department of Agriculture food assistance	3.3	...	3.3
Medicaid	9.7	7.5	17.2
Housing assistance	3.0	...	3.0
Basic educational opportunity grants	1.8	...	1.8
Total	22.3	7.5	29.8

Source: Setting National Priorities, The 1978 Budget. Joseph A. Pechman, et al., The Brookings Institution: Washington, D.C., 1977.

excluded from our categorical welfare system, this is no longer the case. The system remains categorical but the working poor are currently being aided.

Second, expenditures for the social insurance programs are substantially larger than those for welfare programs--$133.8 billion as compared to $50.8 billion. In all, social insurance expenditures account for nearly three-quarters of total income support expenditures. As a consequence, social insurance programs lift more people out of poverty than do welfare programs, even though a larger proportion of the benefits from welfare go to the poor.

Third, the hybrid earned income tax credit is miniscule in comparison to both social insurance and welfare programs. The federal income tax does, however, provide substantial subsidies to nonpoor families for housing ($10 billion), medical care ($8 billion), and child care ($1 billion).[21]

Fourth, cash benefits account for a larger share of total expenditures than in-kind benefits--$134.5 billion versus $50.1 billion. But, note the welfare benefits that are in kind exceed both cash welfare benefits and in-kind social insurance benefits.

Fifth, although many people identify the Aid to Families with Dependent Children (AFDC) program with welfare, it actually accounts for only 20 percent of total welfare expenditures and not much more than 5 percent of total expenditures on income support. By far the largest welfare program is Medicaid.

Sixth, the bulk of income support expenditures is financed by the federal government—$163.8 billion out of a total of $185.5 billion. Just as in-kind benefits play a bigger role in welfare than in social insurance programs, state and local financing also plays a bigger role in welfare programs than in social insurance. Nearly 30 percent of total welfare expenditures are borne by state and local governments. In contrast, less than 7 percent of total social insurance expeditures are borne by state and local governments.

Before concluding, it is worth noting that this overview of the income support system would differ if free public elementary and secondary education were included as part of the system. Most analysts of income support programs do not think of free public education as an income support program, because elementary and secondary education have been provided for so long in this country on a universal basis that free public education is taken as an essential feature of our social landscape. The argument can be made that it should be so included, however, because if primary and secondary education were predominantly privately financed, with income tested subsidies for the poor (as many advocated in the early 19th century), the income tested educational subsidy program(s) would clearly be counted as part of our income support system (just as the basic educational opportunity grants program now is). If education is included, total expenditures on income support rise by $62 billion and the difference between expenditures on universal and welfare programs becomes correspondingly larger--$196 billion (rather than $134 billion) on universal programs compared to $51.7 on welfare programs. The share of universal programs accounted for by in-kind benefits would increase from 27 percent to 42 percent of the total, and the share of state and local expenditures would increase from 12 percent to 32 percent of the total.

Achievements of the Current System

One out of every four American families receive benefits from at least one income support program. Social security programs provide nearly all Americans with economic security against old age, premature death, disability, and unemployment. The aged also receive protection against large medical bills. Welfare programs increase the incomes and well-being of millions of poor Americans who are aged, blind, disabled, dependent children and their mothers, and families whose incomes are not sufficient to purchase an adequate amount of food or shelter. The earned income credit subsidizes the earnings of working poor families.

The poorest fifth of our families in 1976 derived 94 percent of their total income from our income support system. Even the second poorest fifth derived 34 percent of their total income from these programs. Our income support system thus provides a substantial share of the total incomes of the poorest members of society. The data in Table 2 indicate just how important income support payments are in reducing poverty. As column 1 indicates, slightly more than twenty-one million families had pretransfer incomes (total income not including income support payments) below the poverty line. That amounts to 27 percent of all families. Social insurance benefits raise the incomes of 9 million

Table 2. Families Below the Poverty Level Before and After Income Support Benefits Fiscal Year 1976

Families[a] in Poverty	Pre-Transfer Income	Post-Social Insurance Income	Post-Social Insurance and Welfare Income	Post-Social Insurance, Welfare and Transfer Income[b] I	II
Number in Thousands	21,436	12,454	10,716	9,978	6,441
Percent of All Families	27.0	15.7	13.5	11.3	8.1

Source: Poverty Status of Families Under Alternative Definitions of Income Background Paper #17. Congressional Budget Office, Congress of the United States, Washington, D.C., June 1977, p. 24, Table A-4.

[a]Families are defined to include unrelated individuals as one-person families.

[b]Column 1 excludes Medicare and Medicaid benefits received by families participating in those programs; Column II includes medicare and medicaid benefits.

of these low income families sufficiently to take them above the poverty line (column 1 minus column 2). Cash benefits from welfare lift an additional 2 1/2 million families out of poverty (column 2 minus column 3). If benefits from in-kind programs other than Medicare and Medicaid are counted as income--principally Food Stamps and Housing Assistance benefits--welfare programs lift nearly two million more families over the poverty line (column 3 minus column 4). Finally, as the last column indicates, if benefits from Medicare and Medicaid are also counted as income, only 6.4 million families remain poor after receiving benefits from our income support system. Thus, these programs reduce the incidence of poverty from 27 percent to between 11.3 percent and 8 percent of all families.

The income support system not only reduces poverty in absolute terms. It also increases the share of total income going to the poorest members of our society. In 1976, for example, the pretransfer share of total income going to the poorest fifth of U.S. families was only 0.3 percent. Income support programs increased this share to 7.2 percent. If income were shared equally, each fifth would have 20 percent (one-fifth) of the total.

Finally, our income support system cushions the income losses suffered by families with unemployed breadwinners. Based on data from 1971, it has been estimated that benefits from income support programs replaced an average of 31¢ out of each dollar in earnings lost due to unemployment for males with poverty level incomes, and 56¢ out of each dollar for females with poverty level incomes.[22] Income support programs probably did an even better job during the 1974-76 recession, because of liberalizations in the Unemployment Insurance and Food Stamp Programs since 1971.

Despite these notable achievements, our income support programs are subject to numerous criticisms. Some are clearly justified, others not. Some are inconsistent with others. We now explore these criticisms in the context of the major issues in income support policy which form our theme.

Sources of Dissatisfaction with the Current System

Adequacy versus cost. The most common benchmark used for measuring the adequacy of income support programs is the poverty line. The poverty line (which varies by family size) was equal to $5780 for a family of four in 1976. There are other more generous benchmarks of adequacy. The Bureau of Labor Statistics low income budget for an urban family of four in 1976, for instance, was equal to about $10,400 or just about twice the official poverty line.

Benefits from welfare programs are inadequate, even by the less generous poverty line benchmark. They do not eliminate poverty. While benefits from income security programs lifted 12 million families out of poverty in 1976, nearly 9 million remained poor.

Benefits from the income security system are also inequitable, being more adequate for some groups than for others. For example, the combined benefits to the aged from the Supplementary Security Income (SSI) program, state supplements to SSI, and Food Stamps virtually eliminate poverty among the aged in all states. In contrast, single-parent families entitled to AFDC plus Food Stamps only receive benefits generous enough to equal the poverty line in four states; in 24 states benefits from AFDC plus Food Stamps yield benefits equalling only one-half to three-quarters of the poverty line. Intact low income families in most states are eligible only for Food Stamps, which yield a benefit to a family of four with no other income of only about $2100--about one-third of the poverty line.

To increase adequacy, however, will increase costs. To the extent that the cash benefits go to those expected to work, it will also conflict with self-reliance unless the benefits are tied to work.

Some Americans believe, not that the most serious problem with out income support programs is that they provide inadequate benefits, but, on the contrary, that expenditures on income support should be cut by targetting the aid more effectively on the poor. Some have even asserted that expenditures on income support programs are out of control.

As the chart in section I indicates, income support expenditures have grown rapidly since President Johnson's declaration of a War on Poverty, not only in absolute terms but also relative to total GNP. From 1947 through 1957 expenditures grew from 3 to 4 percent of GNP or by .1 percentage points per year. From 1957 through 1965 the growth rate was .25 percentage points per year. In the 5 years following the War on Poverty the average growth rate was .4 percentage points per year. During the last seven years, the growth rate was somewhat lower--just a bit less than .3 percentage points per year.

While we spend more now than in the past, however, we still spend somewhat less than the other Western democracies. Are these costs too large? The answer, of course, depends principally upon how much we value what they buy--economic security and alleviation of poverty.

Those who argue that expenditures are out of control ask what the American people now think about the expenditure levels we would have 50 years from now (27% of GNP) if expenditures continue growing at the rapid rate they have in the last 12 years. Projections can, however, be highly misleading. If military expenditures had continued growing relative to GNP from 1960 on at the same rate that they had grown between 1950 and 1960, for instance, they would have been equal to 14 percent of GNP in 1976 (compared to actual expenditures of 6.6 percent) and to 20 percent in the year 2000. If they continue to shrink as a percentage of income in the way they have during the past 6 years, by the year 2000 they will be equal to 1.1 percent of GNP.

Those who say that expenditures are out of control believe that expenditures should grow at a lower rate or perhaps even decline in the future. "Out of control" is a useful rhetorical or debating device to remind potential proponents of each small improvement in adequacy that many small improvements can add up to big increases in cost. This is true. It is also true that many small improvements can add up to a big improvement. But it is not true that nobody is responsible for the expenditures or that nobody can stop them.

With a few minor exceptions, and one less minor one, previous expenditure increases were the result of conscious and deliberate actions by three Presidents, the House of Representatives, and the Senate of the United States.[23] Congress increased benefits for all OASDHI beneficiaries by 13 percent in 1967, 15 percent in 1969, 10 percent in 1971 and 20 percent in 1972. (Some of these increases were higher and others lower than those recommended by the President.) These benefit increases account for the lion's share of increased expenditures on income support programs.

Just as previous expenditure increases were the result of deliberate decisions by representatives of the American people, future increases or decreases will be as well. Once again, therefore, the key question is: Are we spending too much, too little, or just about enough?

Certain critics of the current system have suggested that we could substantially reduce costs without increasing poverty by eliminating inefficiency and waste.[24] The programs they have in mind are the universal programs. Universal programs provide benefits not only to middle income but to upper income families as well. These critics contend that such groups do not need the benefits, which should only be given to the poor who "need" them. As noted in Section 1, welfare programs would indeed be cheaper than universal programs--for upper income groups. But this is because welfare programs provide smaller benefits to the near poor and lower middle income groups than universal programs. Reducing costs for some comes at the expense of reducing benefits to others. And it must be remembered that this very attribute of providing benefits to the near poor and middle income groups is what makes universal programs promote self-reliance more effectively than welfare programs can. Finally, welfare programs provide much less protection for middle and upper income Americans against economic insecurity (as distinct from income inadequacy) than universal programs. Society can indeed reduce costs to some of us while not increasing poverty, but to do so we must be willing to reduce benefits to near poor and lower middle income families, reduce self-reliance among the poor, and reduce economic security for all Americans.

Work. Some Americans believe the most serious problem with our current system is that it discourages work. One major source of this dissatisfaction is the AFDC program. There are concerns about particular work disincentive provisions in AFDC, but the larger issue is whether or not female heads of households should be expected to work. (The other major source of dissatisfaction relates to the severe 1974-1976 recession, continuing high rates of unemployment, and the growth of the Food Stamps and Unemployment Insurance programs.)

In the U.S. today, there is a clear consensus that able-bodied men should work and that the blind, disabled, and aged need not. No such consensus exists with respect to women who head families. When AFDC was established in 1935, the general view was that a woman's place was in the home. At that time, less than 15 percent of married women worked. One explicit purpose of AFDC when it was first established was to substitute income support benefits for the earnings of the missing husband so that the mother could devote her time to raising her children. One of the reasons the AFDC program has become so controversial is that attitudes and behavior with respect to the appropriate role of women have begun to change. As of 1975, over 50 percent of married women worked.

Society is now divided into those who would like all female heads of families to be classified in the expected to work category and given aid only if they do work, those who would like to exempt all female heads from work requirements, and those who would require female heads without young children to work while exempting those with young children. The child care expenditures that would be necessary if mothers of preschool children worked would almost certainly make it more expensive to bring the total net incomes of those families up to a decent level through a jobs program than through cash aid. Whether a jobs program for those with children over 7 would be more costly than a cash program is a question that has not yet been answered.[25]

In addition to the overriding concern about which female heads of families should be expected to work, there are concerns about work disincentives in AFDC and other welfare programs. One source of disincentives is program generosity. But if benefit levels are reduced, the programs will do a less adequate job of helping those who need help. Adequacy requires benefit generosity, but only if benefits are tied to jobs can we avoid the conflict between adequacy and the incentives necessary to promote independence. Another source of work disincentives in our current income support system, described in the previous section, is the cumulation of tax rates from several income tested or welfare programs into overall tax (or benefit reduction) rates that are extremely high. These high rates can be reduced in one of two ways. Either the benefits from some of the programs can be reduced or eliminated, or the tax rates in some or all of them can be reduced. The first reduces the adequacy of the income support system. The second has the effect of extending benefits further up the income scale, with the inevitable consequence of increasing the cost to the rest of the population.

Still another source of work disincentives derives from peculiarities of the benefit structures of existing programs. By ignoring a portion of earnings in determining the actual amount of the benefits to those who are eligible, but counting <u>all</u> earnings in determining eligibility for the program, AFDC creates an obvious incentive for single-parent families to quit their jobs temporarily in order to lower their current income sufficiently to become eligible for AFDC. The automatic eligibility for Medicaid and food stamp benefits that AFDC status confers exacerbates this incentive. It also creates an incentive for AFDC beneficiaries not to earn enough to take them over the AFDC earnings cutoff, which would suddenly deprive them not only of cash, but Food Stamps and medical care as well. A third disincentive is the rule that to be eligible for the Unemployed Parent segment of AFDC (AFDC-U) one must not be working more than 100 hours per month--a clear incentive for existing and potential beneficiaries to seek part-time rather than full-time work.

All these work disincentive features can be eliminated. They are really only special cases of high tax rates--cases where tax rates actually exceed 100 percent, since the cost of earning another dollar is much greater than the dollar itself. As in the case of high tax rates considered above, however, they can be reduced or eliminated only at the price of cutting benefits or extending eligibility to many individuals and families not currently eligible for AFDC or AFDC-U. Although raising the income eligibility criterion will increase the incentives to work and earn, such increases are unlikely to be substantial enough to offset the increase in cost that will be stimulated by the more generous eligibility conditions. Promoting self-reliance conflicts, once again, with compassion and thrift.

These work disincentives are of particular concern now because of the recent very high rates of unemployment. A people as strongly committed to self-reliance as we are is bound to be profoundly disturbed by unemployment rates of 6, 7, 8, and even 9 percent. Many Americans who take pride in the role our income support programs have played in ameliorating the suffering resulting from high unemployment rates believe that this is not enough--that we need also to provide the unemployed, particularly the long-term unemployed, with a job.

While we have had several different, mostly temporary, antirecession public employment programs during the 1970s, none of them have provided anywhere near enough jobs for everyone who wanted one and was eligible for it. To solve this problem requires one of three actions, or some combination thereof. Eligibility for the jobs can be restricted, so fewer jobs are required; the salaries of the jobs can be reduced, making them attractive to a smaller number of people; or the funds allocated to jobs programs can be increased. Restricting eligibility allows the program to continue paying adequate benefits to some group in the population that is judged to be either more in need or more deserving than the left out groups. Reducing salaries allows the program to spread benefits more widely but at a less generous level. Increasing the funding allows the program to pay higher benefits to all.

The most serious recession since the Great Depression took place after the tremendous growth rate of transfers during the 1960s, particularly after (1) welfare aid via the food stamp program was extended to those expected to work and (2) the unemployment insurance program was liberalized substantially. This concatenation of events has led some to ask whether income support programs might not be the source of as well as the cure for unemployment.[26] This, of course, is an empirical question, the answer to which is unclear from social science research. One study, for example, estimated that the unemployment insurance program was responsible for anywhere from 4 to 16 percent of the unemployment rate in 1972.[27] This is a large range of uncertainty, and is increased if account is taken of the post-1972 growth of unemployment insurance and food stamps. Thus, social science research cannot give us a precise answer to how much unemployment is due to transfers. Two facts, however, suggest that income support programs are not an important cause of unemployment. First, the highest rates of unemployment are among teenagers, most of whom are not eligible for aid from any of these income support programs. Second, high unemployment rates existed in the U.S. and other industrialized countries long before income support programs were established.

Categories. The most controversial categorical distinction we currently make is between single-parent and two-parent families. Under current law, single-parent (mostly female-headed) families in many states are eligible for substantially more aid than two-parent families with identical incomes. Food Stamps have substantially reduced this inequity, but they have not eliminated it. Female-headed families currently are eligible for AFDC, Food Stamp, and Medicaid benefits; most poor male-headed families are eligible for only Food Stamps.[28] Not counting Medicaid benefits, well over half the AFDC caseload lives in states where a female-headed family of four with no other income is entitled to over $4300 in combined AFDC and Food Stamp benefits, while a male-headed family of the same size is entitled to only the $1992 in Food Stamps.

This distinction is unfair to families who remain together. (It also creates an incentive for them to split, or at least feign doing so, in order to qualify for aid, which is discussed below.)

Yet the equity issue between intact and split families is more complicated than at first appears. Single parent families are, on average, much worse off than intact families. Indeed, single parent families are worse off in terms of their potential standard of living than two-parent families of identical size and income. Two-parent families have two potential earners, two potential housekeepers, two people who can perform adult roles. Single parent families by definition have only one. This means, for example, that a man with a wife who stays at home can work and earn without incurring any child care or housekeeping expenses. A single parent who works will have to incur both. Public support of day care expenses of the single-parent workers helps to reduce but does not completely eliminate this differential in net earnings potential.[29]

Equity considerations therefore suggest some benefit differential between single- and two-parent families. But existing differentials are probably too large. We can reduce the disparity between intact and split families (and the family splitting incentive it creates) either by reducing aid to single-parent families, or by spending more on two-parent families, or some combination of both. It is, as usual, impossible to reduce the inequity without reducing the generosity of our current support levels for single parents unless we increase costs.

The family. Many Americans believed that the growth in AFDC caseloads and costs during the 1960s and early 1970s was attributable to family breakdowns caused by AFDC. And part of the growth in AFDC caseloads is, indeed, attributable to the dramatic growth of female-headed families--from 2.6 million in 1960 to 4 million in 1971 to 7.5 million in 1976.[30] This does not tell us, however, if AFDC caused or merely responded to this increase in female headship.

Any income support program that provides income to female-headed families will reduce the economic pressure on women to remarry or remain married. Survivors' Insurance, as well as AFDC, has this effect. So would a universal cash assistance program for which female-headed families were eligible. But AFDC has an additional effect which undermines family stability. Because benefits in the program are for the most part limited to single-parent families, the mother and the children will frequently be better off economically if she is not married either to a low wage earner, or to an unemployed worker in the 24 states without AFDC-U. (This is mitigated somewhat under current law, because if any AFDC mother remarries and her new husband does not adopt the children AFDC benefits to the children may continue.)

Evidence about the actual effects of the AFDC program is mixed. Some studies have found that areas with higher AFDC benefit levels also have higher female headship rates; other studies have found no relationship between benefit levels and female headship rates.[31] During the 1960s, AFDC benefit levels and divorce and separation rates were all rising. The more liberal divorce laws, changes in mores, and general increases in income undoubtedly had more to do with the increase in female headship rates than increases in AFDC benefits. It should be noted in this connection that the incidence of female heads with incomes below the poverty level (those most likely to be affected by AFDC) increased by less than the incidence of female-headed families in the population as a whole between 1960 and 1971 when AFDC rolls grew so rapidly--by 24 percent as opposed to 56 percent. Compared to the effects of wider social trends, therefore, the effects of welfare on the increase in female headship were probably quite small.

Programs which aid both intact and split families may be expected to help hold some families together who would split because of insufficient income and to help break up other families which are staying together only because of insufficient income.

No studies have been able to estimate the effect on marital stability that would result from making benefits available to intact as well as single-parent low income families. Some evidence suggests that extending aid to intact families may, on balance, increase marital splits. Until alternative explanations for the findings have been fully investigated, however, they must still be regarded as tentative.[32]

Local versus central financing and administration. Since enactment of the original Social Security Act, the federal government has assumed a steadily increasing role relative to the states and localities in the financing and administration of income support programs. This shift in responsibility has proceeded slowly because of the sacrifices in self-government and competition among governments that these shifts entail, and because of the difficulties that arise from establishing uniform nationwide benefit levels in the midst of substantial regional inequalities in income. Regional inequalities, however, are diminishing. In 1960, as noted earlier, median income in the South was equal to only about 70 percent of median income in the non-South and two out of five Southerners were poor compared to one out of five non-Southerners. By 1975, median income in the South was about 85 percent of median income in the non-South and one out of eight Southerners were poor compared to one out of eleven for the rest of the country.

In addition, the fiscal burden of welfare to states and localities has been large and rapidly growing. Between 1966 and 1977 state and local expenditures on welfare programs grew from $3 billion to $15 billion. This has led to a developing consensus among state and local government officials in favor of increased federal financing of welfare programs, because of the fiscal relief to state and localities that such financing would bring.

Finally--perhaps the strongest argument advanced for federalization--under existing programs equally poor beneficiaries receive very different amounts of aid depending upon which state they happen to live in. As we have already noted, this problem is most severe in the AFDC program, in which benefits for a family of four with no other income vary from $720 per year in Mississippi to $5954 in Hawaii. The Food Stamp Program substantially reduces interstate differentials in benefit levels by counting the AFDC benefit in the Food Stamp benefit calculation. Thus, in partial compensation for the AFDC difference, the same four-person family would be entitled to $1836 in Food Stamps benefits in Mississippi and only $312 in Hawaii. But the remaining differences are substantial. What is more, rather large differences are common among states that border each other. Annual AFDC plus food stamp benefits for a four-person family with no other income in New York is equal to $6132 and in Connecticut $5016; in Texas $3228, and in Oklahoma $4476. And while the Food Stamp program reduces interstate inequities in the AFDC benefit structure, differences in state Medicaid programs increase these inequities.

Disparities across states in benefits available to unemployed fathers of dependent children from the Aid to Families with Dependent Children of Unemployed Fathers (AFDC-U) program are even more glaring. In 24 states there is no AFDC-U program. And in the 26 states with programs, the range in benefit levels is also large.

Inequities in the SSI program also exist. They arise out of differences in the amount that states supplement the basic federal SSI payment. But because there is a standard federal minimum payment, the disparities across states are not so large. The federal minimum payment as of 1976, which everyone gets irrespective of where they live, was $2014 per year. Twenty-eight states did not supplement this minimum payment; the maximum payment per year was $3389 in Massachusetts.

In all discussions of a federal take-over of welfare, the issue of how high federal benefits should be is contentious because states differ so much in their current welfare benefit levels. In general, representatives of the wealthier states, on the one hand, lobby for the federal government to set high benefit levels--as high as those that these states currently pay--so that they will be completely relieved of financing welfare costs without any diminution in the well-being of their low income residents. Lower income states, on the other hand, fear that such high benefit levels will disrupt labor markets in their states by making it much less worthwhile for people to take jobs at the current wage levels. The higher the federal benefit level, the higher will be the costs to the federal government. The lower the federal benefit level, the higher will be the costs to the wealthier states--or the more their existing beneficiaries will suffer a loss in income.

The Supplemental Security Income Program can be viewed as a compromise between these opposing forces. The federal government established a uniform federal minimum payment for the aged, blind, and disabled which was higher than that paid by about three-quarters of the states. States were then free to supplement the federal minimum payment.

Before concluding this section, it is worth noting that how much of the burden of financing the cash welfare programs the federal government assumes is less important in many respects than changes in the federal role in financing medical care are likely to be. AFDC expenditures may have received the most public attention, but state and local expenditures on Medicaid are nearly 1 1/2 times larger--$7.5 billion compared to $4.6 billion.

Cash versus Kind: The Food Stamp Program. The Food Stamp program is the only existing income tested program for which eligibility and benefits depend only upon income and family size. This makes it important in that it is the only noncategorical income tested program. As such it provides a nationwide income guarantee in food stamps below which no family can fall--nearly $2000 for a family of four in 1976. As noted above, Food Stamp benefits reduce the inequities in the cash benefit programs between male and female headed families. They also reduce inequities between poor families living in different states. If, in the official poverty figures, the aid people received from Food Stamps were counted as income, there would be about 16 percent fewer poor people. While the Food Stamp program plays a critical role in our total income support system, however, it has severe deficiencies which relate principally to its being an in-kind rather than a cash program. Consequently, food stamps are now the central focus in the cash versus kind issue.

Some of the major faults of the Food Stamp program derive from the so-called purchase requirement. Currently, families participating in the Food Stamp program must purchase the stamps. A family of four with $140 monthly income, for example, could purchase $166 worth of stamps for $37. The latter figure is the purchase price. The former is the face value of the stamps. The difference between the two is the subsidy or bonus. The necessity of coming up with this purchase price at the right moment prevents some eligible families from participating in the program. In addition, because some beneficiaries have to purchase more stamps than they wish to spend on food, the program creates incentives for beneficiaries to sell their stamps at a discount (on the black market) to nonbeneficiaries and storekeepers. Such violations of the law are not serious enough to threaten our society. But most people would agree that programs which encourage people to break the law even in relatively innocuous ways are not optimal. The rationale for the purchase requirement is that it helps insure that beneficiaries spend a sufficient amount on food. But empirical studies have indicated that an equally generous cash program would have led to virtually the same amount of extra food purchases as does the Food Stamp program[33]--leading to the conclusion that Food Stamps do little or no more to promote nutrition than would an equally generous cash transfer program.

In order to deal with these problems, President Carter has proposed elimination of the purchase requirement and Congress has adopted his proposal. As of 1978, therefore, food stamp beneficiaries will not have to purchase food stamps. They will receive food stamps equal only to the bonus or subsidy that they were previously entitled to rather than an amount of stamps equal to the purchase price plus the subsidy. The elimination of the purchase requirement will make food stamps even more equivalent to cash.

The major remaining problems with the program derive from the fact that it will still provide aid in the form of "funny money" rather than cash.

First, some potential beneficiaries may still be discouraged from participating in the Food Stamp program because of the extra stigma associated with the stamps themselves. While shame discourages some eligibles from participating in <u>any</u> program designed to aid only the poor, a cash program submits participants to only one such potentially humiliating experience--when they apply. The Food Stamp program publicly identifies participants every time they purchase stamps and every time they use them. Second, the Food Stamp program also must print, distribute, and redeem food stamps as well as determine eligibility and benefit entitlement. The administrative costs of the stamp distribution and redemption would be completely absent from a cash program; eligibility and benefit entitlement costs would be largely unnecessary, too, since they now entail duplication for every beneficiary who also receives benefits from the major cash transfer programs.

The above argue, of course, for replacing food stamps with an equivalent cash assistance program. There are also some arguments for retaining food stamps. First, while research indicates that food stamp beneficiaries would spend nearly as much on food if given cash aid, that research is not inconsistent with the existence of some (though not many) families who would not buy as much food if given cash--even though their children really need it. Clearly, the children in these families are helped by having a food stamp rather than a cash program--if the parents participate in the program. Second, it is possible that cashing out food stamps may eventually lead to less aid to the poor. That is, there may be some portion of the voting public who would vote for more aid in food stamps than in cash. These potentially include those who might believe (1) food stamp aid helps farmers more than would a cash program; (2) food stamps are preferable to cash because they help the children in those families where cash would be misspent; or (3) those who simply distrust the poor, would never vote for as much cash as in-kind aid, would vote for less in food stamps if they knew how close to a cash guarantee program it really is, and therefore would vote less for a cashed out food stamp program.

Universal programs versus welfare. As already discussed, universal programs provide benefits regardless of the income level of the beneficiary. Income tested or welfare programs impose implicit or explicit tax rates (or benefit reduction rates) as income rises, to ensure that benefits do not go to people or families above a certain income level. Our current income support system includes both, and certain of the worst features of income tested programs have been removed in the last ten years, making the differences between them and universal ones somewhat less great. How much we should rely on universal programs and how much on welfare, however, remains a contentious issue.

Until a decade ago, as noted above, welfare programs reduced benefits by a dollar for each dollar of income that a beneficiary had. Since then there has been a continuing trend in the direction of lower tax rates. In 1967 Congress reduced the benefit reduction or tax rate in AFDC to zero for the first $30 per month and to 67 percent for earnings in excess of $30 per month. In 1972, Congress set the tax rate on earnings in the newly created SSI program at only 50 percent. The Food Stamp program has only about a 30 percent tax rate on earnings. Lower tax rates increase incentives to work for existing beneficiaries, increase the number of people eligible for welfare benefits,[34] and thereby increase the costs of these programs. Similar though more sweeping effects would be achieved by shifting entirely from a welfare to a universal program approach.

Welfare programs have been changed in other ways as well which make them more like universal programs. Welfare benefits are based increasingly on average or presumptive need, as determined principally by family size and income rather than a detailed investigation of each family's particular circumstances and needs. Assets tests, a disincentive feature of most welfare programs, have also been liberalized. The value of an aged person's home, for instance, is no longer counted at all in determining eligibility for SSI. Moreover, as also noted above, both the name of the new Supplemental Security Income Program and the choice of the Social Security Administration to administer the program were motivated in large part by a desire to reduce the stigma of welfare and gain the respectability of the social security programs, which are universal.

But critics of welfare note that tax rates in most programs still range from 50-70 percent which is a higher marginal tax rate than the federal income tax imposes on all but the very richest. Critics also argue that welfare programs single out low income citizens from the rest of the population. For this reason they reduce the self-respect of the poor, increase the chances that the poor will be treated like second-class citizens, and reduce social cohesion by creating sharp distinctions between beneficiaries and nonbeneficiaries. Universal programs do none of these things.

Advocates of greater reliance on universal programs thus favor expansion and modification of existing social insurance programs and the creation of new universal programs such as refundable tax credits.[35] Welfare would be retained only for the small minority who, for reasons related to highly individual characteristics or circumstances, could not manage on the benefits universally available.

Advocates of greater reliance on welfare programs argue that these criticisms are not inherent in the income tested approach. They argue that such programs can be administered to retain dignity and self-respect for all, that the alleged social cohesion costs of income tested programs are small or nonexistent, that universal programs provide less aid to the poor because of the existence of overall fiscal budget constraints, and that universal programs are a costly and inefficient way of helping those who need help.

Those who believe that we should have no universal programs are few. Most critics of the current mix who believe we should rely relatively more on welfare programs do not want to eliminate existing social insurance programs, they simply want to reform and enhance their insurance role as opposed to their role in ameliorating poverty. They believe that the dual objectives currently being served by social security programs--providing economic security to all Americans and increasing the incomes of the poorest--should be clearly divided and served by different systems. They argue, for example, that the minimum benefit in the old age insurance program be eliminated. It is, they assert, an inefficient antipoverty device for two reasons. First, the minimum benefit goes to many (mostly former government civil service workers) who get it not because they are poor but because they have worked in employment covered by social security--many for only a small number of years. Opponents of the minimum deplore the fact that 40 percent of retired civil servants collect it.[36] Second, increases in the minimum social security benefit would result in benefit increases to the entire aged population whereas increases in welfare benefits would go only to the poor and therefore be "cheaper."

Those who favor more reliance on universal programs, argue that the solution to the "inefficiency" (more aptly the inequity) of people who qualify for the minimum benefit after working only a few years in covered employment rather than having to contribute social security taxes for most of their working years, is to bring everyone, including government civil service workers, into the social security system. Moreover, if using the minimum benefit to achieve the poverty reduction objective is more costly to some members of society than a welfare program would be, that can only be because it provides greater benefits to others. Depending upon how increases in minimum benefits are treated in SSI, an increased minimum would either increase the incomes of welfare beneficiaries or reduce rolls or both. Reducing the number of people on welfare by strengthening the poverty reduction aspects of social security has, in fact, been one of the reform objectives of every Democratic president since Roosevelt.

The earned income credit, which emerged in 1974 out of a desire to give assistance to the working poor without taking them through the welfare system, is perhaps the clearest expression of a desire to seek a middle road between welfare and universal programs. Benefits are clearly related to income, but the benefit reduction (tax) rate is low and the program is administered by the Internal Revenue Service which, it should be noted again, deals with Americans of all income groups.

4. The Better Jobs and Income Program

The Carter Administration's Better Jobs and Income Program contains three major parts: (1) a jobs program for the principal earner in every family with children, (2) a consolidated cash assistance program with differential benefits for those expected and those not expected to work, and (3) an expanded earned income tax credit. The major provisions of each part are described, followed by a discussion of how the Better Jobs and Income Program deals with the major issues in income support policy.

The Program Itself

Jobs component. If the Administration's program goes through, 1.4 million work and training slots will be created in fiscal 1981 under the jobs component, about 300,000 of which will be part-time jobs. The federal government will pay the wage costs plus administrative and overhead costs at a level of up to 30 percent of wage costs. It will also develop guidelines to assure that the jobs created are appropriate for the groups participating in the program. The jobs themselves will be developed and administered by local governments.

The sole or principal wage earner in every family with children will be eligible to participate in the jobs program if they have been unemployed and have looked for a private job for at least five weeks. (There is no income or assets test in the jobs component of the program.) During the initial five-week job search period, the job applicant must accept a private job paying the subsidized wage or better if one becomes available. In 37 states this will be 10 percent above the minimum wage. In the rest it will be at the minimum wage. After one year in a subsidized job, the participants must again spend five weeks looking for a private job. If there is more than one wage earner in the family, the principal wage earner will be defined as the adult who had the highest earnings or worked the most hours during the previous six months. If the usual principal earner is currently incapacitated or otherwise unavailable for work, another adult may apply.

All applicants found eligible will be given either a full-time job or job training at the minimum wage. Part-time jobs will also be made available to single parents with children below age 13. The basic hourly wage rate for the jobs and training slots will be the federal minimum wage. In three cases the wage will be higher: (1) in states with higher minimum wages than the federal minimum wage, the state minimum will apply; (2) work leaders (consisting of not more than 15% of participants) can be paid up to 25% above the minimum; and (3) states that supplement the federal cash assistance benefit will be required to supplement the minimum wage proportionally up to a maximum of 10 percent.

Computer estimates indicate that, with these eligibility and wage rate provisions, 1.4 million people will participate in the program at any given point during the year. The total number of people who will participate at some point in the year, however, is estimated to be 2.5 million people.

<u>Cash component</u>. The cash assistance or welfare component of the program will replace three of the largest existing welfare programs: Aid to Families with Dependent Children, Supplemental Security Income and Food Stamps. All low income individuals and families will be eligible for cash assistance. Aged, blind, or disabled individuals with incomes below $5,000 and couples with incomes below $7500 are eligible. Other single individuals with incomes up to $2200 are eligible. Four person families with incomes up to $8400 are eligible.[37] All dollar figures for benefits and eligibility limits are in fiscal 1978 dollars. Benefits are tied to the cost of living through 1981 when the program is scheduled to become operational.

The program has two tiers of support. The upper tier for those not expected to work includes the aged, blind, and disabled; single parent families with children under age 7 or children between age 7-13 when a job and day care are unavailable; and two parent families with young children in cases where one parent is incapacitated. The lower tier for those expected to work includes two parent families with children, single-parent families with no children under age 14, and single persons and childless couples.

Maximum benefits in the upper tier in fiscal 1978 dollars equal $2500 for an aged, blind, or disabled individual and $3750 for a couple. For single-parent families with children maximum benefits equal $1900 for the head of the household, $1100 for the second family member, and $600 for each additional family member up to a maximum of seven persons per family. Thus, the benefit for a four-person single parent family would be \$4200. Benefits will be reduced by 50¢ for each dollar earned in states which do not supplement the federal benefit and by up to 70¢ for each dollar earned in states which do supplement.

Maximum benefits to families in the lower tier are, with one major exception, identical to those in the upper tier. The exception is that in the lower tier the benefit for the household head is zero rather than \$1900. Thus, for a family of four maximum benefits equal \$2300. Benefits are not reduced for the first \$3000 of earnings per year. If, after eight weeks of search, no job is available the head of household benefit becomes \$1180, so that the maximum benefit increases to \$4200. Benefits are then reduced by 50¢ for each dollar earned. (In states which supplement the basic federal payment, benefits may be reduced by up to 52¢ for each dollar earned in excess of a somewhat higher disregard than \$3800.) Single individuals and childless couples with no other income are eligible, respectively, for \$1100 and \$2200 if no job is available to them. Once a job is available they receive no benefit whether they take it or not. If they refuse to take it, they become ineligible for aid because of failure to pass the work test, and if they accept a minimum wage job their earnings will be high enough to disqualify them for aid.

Earned income tax credit. The earned income tax credit currently in operation pays benefits of 10¢ for each dollar earned up to \$4000, then reduces benefits by 10¢ for each dollar earned in excess of \$4000. Thus, the maximum benefit is \$400 at \$4000 of earnings and benefits are reduced to zero at earnings of \$8000. Only families with children are eligible, and this eligibility rule would be continued under the Administration's plan. In addition, benefits would be limited to individuals with private or regular (nonsubsidized) public jobs.

Benefits, however, would be expanded under the Administration's earned income tax credit. Families would be eligible for a 10¢ subsidy for each dollar earned up to $4000, plus a 5¢ subsidy for each dollar earned in excess of $4000 up to the earnings level at which a family became liable for the Federal Income Tax under the Administration's tax reform proposal--about $9000 for a family of four. Benefits would then be reduced by 10¢ for each dollar earned in excess of the tax entry points. Most of the benefits of the program would be received during the year in adjustments to paychecks, to reflect the earned income tax credit through the tax withholding system.

We are concerned in this chapter only with the major benefit provisions of the Administration's program and how these compare to existing law in terms of the major issues in income support policy discussed in the previous section. There are many other important provisions in the Better Jobs and Income Program--particularly in the cash assistance part relating to state supplementation, income accounting periods, filing units, fiscal relief, assets tests, emergency needs, and child care deductions--which are not dealt with here. They are, however, described elsewhere.[38]

How the Program Resolves the Major Issues

Adequacy versus cost. The Better Jobs and Income Program substantially improves the adequacy of benefits provided to the working poor. The combination of the jobs, cash assistance, and earned income tax credit components of the program will provide families with children and one parent able to work with either (a) a total minimum income 20 percent above the 1978 poverty level if a job in the private economy can be found or (b) 13 percent above the poverty line if a subsidized job must be provided. The cash assistance part of the program also provides slightly higher basic federal benefits to the aged, blind, and disabled than is currently provided by the combination of SSI and food stamp benefits. Moreover, the benefits provided to single parent families are higher than those currently available in twelve states from the combination of AFDC and food stamps and exceeds the federal share of AFDC plus food stamps in all but two states. It would lift over 1 1/2 million poor families (or one fifth of those currently poor) out of poverty. It would reduce the poverty gap--the amount of income needed to bring all low income families up to the poverty level--by $3.4 billion, or about one third.[39]

Current expenditure levels on income support do not pose a threat to thrift or self-reliance and freedom. We are a very wealthy country that can afford to be more generous than the many countries poorer than ourselves. And by comparison to other countries whose wealth is equal to ours, our current expenditures are clearly not excessive.

The growth rate of income support expenditures following the War on Poverty was unusually high. It reflected a period of ferment and creativity spawned by a renewed and intensified commitment to reduce poverty and provide even greater equality of opportunity than we had heretofore. The domestic achievements of the War on Poverty and the Great Society are impressive.

The Carter Administration appears to be committed to continued social and economic ferment and creativity. That is one important reason why people vote for the Democratic Party. The American people are quite conscious that taxes have continued to go up while recently real incomes have not. The Carter Administration is trying to improve the adequacy of our income support system without increasing the percentage of our total income devoted to public expenditures. While we agree that proceeding cautiously makes sense, we also believe that substantial improvements in our income support system require at least modest increases in the percentage of our total income devoted to income support expenditures.

We do not believe universal programs are wasteful and reject the strategy of reducing income support program costs by eliminating or even severely reducing the scope of existing universal programs. The possibility of being able to get something for nothing is always enticing, frequently elusive, and invariably misleading. Reducing the costs of income support programs to upper middle and upper income families by relying upon income tested rather than universal programs can be achieved only at the expense of reductions in benefits to near poor and lower middle income families, with the inevitable concomitant of reducing both the oportunity of the poor to be self-reliant and the economic security for all Americans. We are convinced that the overall costs to the American people as a whole would exceed the benefits to the upper middle and upper income Americans. It is hard to believe that most upper middle and upper income families would not agree.

Work. The Carter Administration's commitment to work is quite appropriate. Americans want to be helped to earn their way out of poverty. A major objective of the Better Jobs and Income Program is to increase the rewards for and opportunities to work. But the program does recognize that promoting self-reliance is but one of the major objectives of welfare reform, and is relatively successful in increasing the adequacy of benefits provided to those expected to work.

Expansion of the earned income credit provides both more income to the poor and near poor and increases their incentive to work. Work incentives for families with incomes between \$4000 and \$8000 are substantially increased because, rather than having benefits reduced by 10¢ for each dollar earned, benefits increase 5¢ for each dollar earned--which is equivalent to a 15 percentage point reduction in the tax rate on earnings faced by this group. Moreover, while the program will assure those expected to work of an annual income at least 13 percent higher than the poverty level, nearly three-quarters of that assurance comes from earnings from the jobs program. It should be noted, however, that the cash assistance part of the program increases the tax rates confronted by intact families to 50 or 52 percent.

There are those who believe that we should have only a cash assistance program--that there is no need to engage in a specific job creation effort because the jobs are out there if the unemployed simply lower their wage expectation. We do not have proof either way. We do believe that most of the unemployed do want to work, will welcome the opportunity to do so, but more jobs are needed to enable them to do so. We also believe that a pure cash program does not convey a clear enough message that our society believes in self-reliance. If benefits to those expected to work are kept low enough so that deprivation enforces work, they will be inadequate by our standards of compassion. If benefits are high enough to begin approaching decency--e.g., 10-20 percent above the poverty level--some fraction of our people will choose to live on benefits alone. Neither alternative is optimal.

Public job creation programs are needed in our view. They should be designed in the most equitable possible manner and, to the maximum extent possible, they should further antipoverty objectives. Adminstration estimates indicate that we will need about 1.4 million minimum wage jobs to meet the demand for work at that wage rate. If the wage rates were higher, either the cost of the program would be much higher or there would be an insufficient number of jobs, leaving some potential beneficiaries with larger benefits than in the current proposal and others with none. If the President and Congress are unwilling to spend more on a jobs program, we would rather keep the wage rate low enough to provide a job for all who are eligible for and want one.

There are also those who believe that we should have only a jobs program with no cash assistance component. These advocates of pure jobs programs do, however, agree with other experts that private sector employment should be encouraged and the size of the subsidized jobs program kept as small as possible. A cash assistance program helps to achieve that because the benefits have the effect of subsidizing the job search costs of low income unemployed workers, just as unemployment insurance subsidizes the job search costs of middle income employees. The earned income credit (or any other wage rate or earnings subsidy to regular market jobs) also creates incentives for seeking a regular labor market job but, unlike cash assistance, does not provide the subsidization that encourages low income workers to search a bit longer for a better job.

What if the potential beneficiary cannot find a private sector job immediately? The job search provisions contained in the Program for Better Jobs and Income seems reasonable. If potential beneficiaries are offered a public job immediately many would probably take it without searching in the private sector. To offer no cash assistance during the job search period would in our view be punitive.

If one believes that unemployment is predominantly voluntary, in the sense that most of the low income unemployed could find private sector minimum wage jobs if they really wanted them, it might appear appropriate to make the unemployed bear all the costs of their job "search" for regular labor market jobs. But we think the evidence shows that unemployment is not predominantly an individual voluntary phenomenon. Within the last decade, unemployment rates have been below 4 percent and above 9 percent of the labor force. To suggest that unemployment is predominantly voluntary is to suggest that these drastic changes are attributable mainly to equally drastic changes in our people's tastes for work---a suggestion that most find ludicrous. We do not, therefore, support the view that the unemployed poor should have to bear the whole cost of society's desire that they seek private sector employment. All of us gain by a smoothly functioning labor market and have an attendant obligation to share these gains with those who bear the heaviest costs by helping finance unemployment insurance. Similarly, we all gain from having low income workers take private sector rather than special public jobs, and again have an obligation to share those gains with those who bear the heaviest costs through a cash assistance program.

On the question of what groups of single parents should be expected to work, the Carter Administration's middle of the road position appears reasonable. Single parents with children below the age of six would have extremely large child care costs if they worked and may have no one else to help them with other housework chores. Single parents with no children below the age of fourteen have minimal child care costs, can get some help with housework chores from their children, and will have to reenter the labor force within a few years in any case, when they will lose all AFDC benefits on the growing up of their children. It is reasonable to expect the latter, but not the former, to work. Single parents with children age 6-13 are an in-between case and are so treated in the Program for Better Jobs and Income. The only problem with this approach is that previous efforts to require AFDC mothers to work have resulted in little more than harassment.

Categories. The Carter Administration's proposal is obviously committed to distinguishing between those expected and not expected to work and treating them differently, while at the same time reducing the costs of existing categorization. The Program for Better Jobs and Income provides the highest maximum cash benefits to those who are not only not expected to work but also least likely to do so--the aged, blind and disabled. The lowest cash benefits are provided to families where the adults are expected to, and very likely will, work. The former are guaranteed approximately a poverty level income in cash. The latter are guaranteed an above poverty level income, but through a combination of of earnings from a private or public subsidized job, cash assistance, and the earned income credit.

The family. The Program for Better Jobs and Income comes down on the side of incentives to decrease family instability. The cash benefit differentials between intact and single-parent families are reduced in the proposal, thus reducing the current financial incentive for a father either to desert his family or pretend to do so because they will be economically better off without him. Whether the program will actually reduce family splits is less clear. As noted above, preliminary experimental evidence suggests the actual effects could be perverse.

Local versus central financing and administration. The Carter proposal will reduce interstate cash assistance benefit differentials. It is another gradual step toward federalization of the entire cash assistance program. This is appropriate. Existing differences in benefits far exceed differences in the cost of living and are simply inequitable. The cash assistance component of the Better Jobs and Income Program will thus reduce existing interstate differentials in benefit payments much as the SSI program did in the case of the aged, blind, and disabled. Over time, as the budget permits, the federal basic benefits can be expected to increase thereby reducing interstate differentials even further. Our view is that cash assistance should eventually be federalized completely.

Responsibility for developing and administering the subsidized jobs program will, however, lie with local governments. This seems reasonable. We have a great deal to learn about how to most effectively develop jobs, combine work and training, and facilitate transition to regular labor market jobs of those in subsidized jobs. The competition among states and localities and the resulting experimentation may help us learn what does and does not work well in these difficult areas. Moreover, what kinds of jobs should be created and the appropriate mix of jobs and training are likely to vary dramatically from one labor market to another and over time within labor markets.

Cash versus in-kind. The Administration's proposal cashes out the Food Stamp program; i.e., replaces it with a cash program--a step which most analysts, including ourselves, support. This does not necessarily imply a judgment that cash is always superior to in-kind aid. In-kind programs in the areas of health, education, and social services may well be an effective approach.

The Food Stamp program is a somewhat special case. Cashing out Food Stamps will reduce administrative costs, the possibilities of fraud, and, most important, the extent to which welfare beneficiaries are singled out from the rest of the population and treated differently. Very few families will buy any less food as a result, as noted above. A few families, of course, will buy less food. But the Food Stamp program is not an efficient vehicle to help the children who live in such families. We have many other institutions in society that help us to identify the few families who spend their money so unwisely that they harm their children. It is neither efficient nor wise to try to help those few through food stamps rather than cash, at the expense of the dignity and self-reliance of the many.

Cashing out food stamps should not lead to a reduction in total aid to the poor. While farm support was an important ingredient in establishing the commodity surplus and Food Stamp programs, it does not play a critical role now and its role will continue to diminish as more and more people find out that beneficiaries buy nearly the same amount of food whether their benefits come in the form of stamps or cash. We don't really think many Americans would vote for less in food stamps if they knew how close to a cash guarantee program it really is. Experts should not underestimate the knowledge or the good will of common American citizens. Many Americans may not know exactly how the food stamp program works, but most probably sense that food stamps differ from cash aid only in that they are funny money. Moreover, we believe most Americans know—or can be convinced when they are presented with the evidence--that the overwhelming majority of low income people do not spend their money frivolously.

Universal programs versus welfare. One of the problems with our current income support system is too many different welfare programs. While each of these programs provides needed help, each also reduces benefits as the incomes of beneficiaries increase and thereby reduces the hopes and opportunities of the poor to improve their own lot through hard work. Together, they reduce benefits extremely rapidly as income rises. We have reached and perhaps even gone beyond the reasonable limits to income testing.[39] To go further would bring us to a situation in which we assured a minimally decent living to all Americans but simultaneously made it nearly impossible for many of them to better themselves. If there is such a thing as a welfare trap, surely it is closely related to such unconscionably high tax rates in welfare programs. The poor start out with less chance of success than the nonpoor. They are born to poorer families, get less education, and thus can generally earn much less than the rest of us. Imposing the highest tax rates on the poor exacerbates these already existing inequalities of opportunity--and is simply unjust.

The Administration's proposal takes some modest steps in the right direction.

The consolidated cash assistance component of the Better Jobs and Income Program would replace food stamps with cash, narrow interstate benefit differentials, and simplify administration. All these reforms reduce the difference between welfare and universal programs. All are improvements over existing welfare.

Expansion of the earned income tax credit is an important step because it provides aid to the working poor without taking them through the welfare system. Because it also increases the take home pay of those on welfare who work, it increases their chances of making it the way Americans are supposed to--through hard work. The only way to reduce the high tax rates on the poor and near poor is to provide benefits or tax cuts to the lower middle income group as well. To criticize expansion of the earned income tax credit as "wasting" money on tax cuts for lower middle income families is equivalent to saying that increasing work incentives for the poor is a waste.

The jobs component will provide work experience and training to help beneficiaries earn their way out of poverty. We feel, however, that the Administration has not gone nearly far enough. There are several obvious steps that would constitute major improvements.

First, the Old Age Insurance program should also be rationalized and made more generous. Such a step would reduce the number of aged who are on welfare.

Second, national health insurance proposals of the welfare type would raise tax rates on the poor and near poor to about 70 percent. Such high tax rates on such a large fraction of our population should be unacceptable to the Carter Administration. Universal national health insurance should, therefore, be a major goal.

The Federal income tax should also be reformed in a way that increases the incomes and the self-reliance of the poor and reduces welfare roles. The Carter Administration has proposed as part of its tax reform and tax reduction proposal to substitute $250 per capita credits for the current $700 per capita personal deduction in the income tax. This is a good proposal. But we should go further and make those credits refundable. Under current law, for example, taxpayers are allowed to deduct interest and property tax payments from their gross incomes before calculating their taxes. This provision of the federal income tax law subsidizes homeowners. The rationale for the subsidy is that we want to encourage Americans to become property owners--the more widely the ownership of property is spread, the more stable and economically integrated our society will be. These are worthwhile objectives. But under current law the people who need the least encouragement--those with highest incomes--get the largest subsidy, and those who need the most encouragement--the poor, the near poor, many lower middle income people (in fact all who do not itemize deductions)--get no subsidy. If the deductions for interest and property tax payments were converted to refundable credits, all Americans--including those with low incomes--would be encouraged to purchase homes. We would increase the incomes of low income Americans, but in a way that integrates them into the mainstream of American life rather than segregating them further.

NOTES

A previous draft of this paper was prepared for the U.S. Department of Labor. We hope to use this discussion as the basis for a book-length treatment of income support issues in the context of the American heritage.

[1]The Old Age Insurance program insures against the risk that an individual will have to retire before he dies. In this sense the program pays benefits to the victims of this aspect of economic insecurity. Because the program is also designed to be a savings or annuity program, the Old Age Insurance program also pays full benefits at age 65 to those who retire voluntarily.

[2]For a clear statement of this view see Josephine Shaw Lowell, "The Economic and Moral Effects of Public Outdoor Relief." Proceedings of the National Conference of Charities and Corrections, 1890.

[3]See Watts and Rees (1977) and Masters and Garfinkel (1978).

[4]Masters and Garfinkel (1978) estimate that the percent of total costs of a conventional negative income tax program attributable to labor supply reductions ranges from about ten to twenty percent.

[5]For example, overhead costs in jobs programs range from 50 to 100 percent depending upon the group being aided, the amount of training and other services provided and so on. The value of output within the Supported Work Demonstration varies enormously from project to project. See Kemper and Moss (1977). And, the labor supply effects of cash programs should depend on whether or not there is a work requirement and whether the aid is long or short term in nature.

[6]As suggested earlier, it is also less economically advantageous to make the disabled work because of the high costs of producing the physical environment necessary for their employment. This holds to a lesser degree for the aged.

[7]To date, there are no empirical estimates of the degree of substitution of public for intrafamily transfers to the aged. However, we do know that the higher are social security payments and other income the lower is the probability that an aged individual will live with his or her children. Sharing their home is probably the most significant form of aid that children currently provide to their parents. See Moon (1977).

[8]See pp. 68-69 below.

[9]We do know that in general, children reared in intact families do better than children reared in split families, but we do not know if the children from split families would have done any better had their families remained together. See Bradbury (1977).

[10]A closely related argument is that the benefit differentials that do emerge from state and local financing create incentives for migration which is economically inefficient.

[11]Some studies have found that even very high tax rates have very little effect on the work behavior of the very affluent. See Barlow et al. (1966). Most studies show that the work behavior of the poor is affected by high tax rates. (See references in footnote 3.) But neither of these kinds of studies attempts to measure the effects of high tax rates on recruitment to the affluent or poor classes.

[12]The Economic Security Committee, for example, proposed some modest first steps in national health insurance and envisioned the eventual development of sickness and disability insurance.

[13]U.S. Committee on Economic Security (1935, p. 7).

[13a]For an account of the role of the Committee, the American Medical Association and President Roosevelt, see Witte (1963, pp. 173-189).

[14]Statement by Secretary Ribicoff, Hearings before the Committee on Ways and Means, House of Representatives, 87th Congress, 1st Session, on H.R. 3856, Feb. 15, 1961.

[15]See Lampman (1974).

[16]See MacDonald (1977).

[17]Costs in Medicare increased primarily because of increases in the quantity of medical care received and increases in the price of medical care while costs in Medicaid increased primarily because of increases in the number of beneficiaries. Average costs per beneficiary remained constant. See Davis (1977).

[18]See Apple (1972).

[19]See Moynihan (1973).

[20]OECD (1976).

[21]Special Analysis of the Budget (1978, p. 128, Table F1).

[22]See Gramlich (1974, p. 332).

[23]Increased expenditures for Unemployment Insurance and Food Stamps were the result of a combination of deliberate legislative changes and the severity of the 1974-76 recession. The latter cause could be classified under the short term out of control category. Increases in Medicaid and Medicare expenditures were also higher than expected because of unanticipated inflation in medical care costs. But the bulk of the increased expenditures in both cases is clearly attributable to the creation of generous new programs. A fairly sizable part of the growth in AFDC caseloads and costs between 1960 and 1970 was both unanticipated and not directly attributable to deliberate action. But this dramatic growth--from 3 million recipients in 1960 to 9.6 million in 1970--had already slowed down by 1972. In 1977 there were only 0.4 million more beneficiaries than in 1972.

[24]Perhaps the principal spokesman for this viewpoint is Milton Friedman (Friedman 1962). Also see Feldstein (1974, pp. 231-244).

[25]The Supported Work Experiment is designed to answer this question. Although some preliminary results from the experiment are available, there is as yet no reliable data on this question. See Masters (1977).

[26]Income support programs can lead to an increase in measured unemployment by allowing (extra income effect) and encouraging (tax rate effect) an unemployed worker to remain unemployed longer than he(she) would in the absence of the program and, if there is a work requirement, by encouraging an individual who really does not want to work, to claim that he(she) is looking for work in order to claim benefits.

[27]See Garfinkel and Plotnick (1976).

[28]AFDC-UP still exists in only about half the states and has very restrictive eligibility criteria.

[29]Child care subsidies do not compensate for the greater burden that homework responsibilities impose on single parents.

[30]Perhaps the most important, and certainly the least understood, cause of the dramatic AFDC caseload growth during the late 1960s was the big increase in the participation rate of eligibles in the AFDC program. In 1967 only 63 percent of the female headed families eligible for AFDC actually received benefits. By 1971 the participation rate had increased to 94 percent. See Bolland (1973). Participation rates increased for a variety of reasons--action of welfare rights groups, greater willingness to apply for benefits, and increasing acceptance rates (of applications) by states.

[31]For a critical summary of this literature, see Bradbury et al. (1977), and MacDonald and Sawhill (1978).

[32]Tuma et al. (1977). They report that marital splits in the Seattle-Denver Experiment are higher for experimentals than for controls. But splits are highest for experimentals assigned to the least generous plans. These experimental plans are equivalent in generousity to the existing AFDC program for which controls are eligible. While the authors assert that women value a dollar from AFDC much less than a dollar from the experimental plans, they have not yet examined whether women in the least generous plans who split stick with the plans rather than switch to AFDC. Moreover, they have not examined the possibility that the

that the apparent difference in marital break-ups may be due to reporting differences and fraud. Experimentals have a greater incentive to report actual and non-existent splits than controls since their experimental payments increase as a result.

[33]See MacDonald (1977).

[34]In an attempt to increase incentives for existing AFDC beneficiaries but not increase eligibility and costs, the 1967 Amendments established that \$30 + 1/3 of gross earnings in excess of \$30 per month should be ignored in calculating benefits of existing beneficiaries but not in determining eligibility for benefits. Because of this, there can be a substantial difference in total incomes between two families who differ only in whether they began working before or after application for AFDC. This is not only inequitable, but as noted above on p. 68 creates an incentive for single parents to temporarily quit their jobs.

[35]For example, the Urban League has proposed replacing welfare programs with a credit income tax--a fully integrated tax transfer system. See The National Urban League (1975). For a discussion of a wide variety of approaches to increasing the role of universal programs, see Schorr (1977). The Council on Trends and Perspectives of the Chamber of Commerce also recommended either a credit income tax or a negative income tax as a substitute for existing programs. U.S. Chamber of Commerce (1976).

[36]Of course, this is not the exact statistic that one would want to measure this alleged inefficiency of minimum benefits. The ratio of nonpoor former civil servants (and other nonpoor beneficiaries) who received the minimum benefit to all those who received minimum benefits would be the more appropriate statistic.

[37]The income cutoffs given are slightly misleading. With 75 percent federal sharing up to $4700 (and 25 percent beyond) the great majority (39) of states will supplement benefits at least to that level for at least those "not expected to work." In other words the basic federal program is likely to operate alone only in the 11 stingiest jurisdictions.

[38]See U.S. Department of Health, Education, and Welfare, Office of the Secretary (1977).

[39]These figures are from the unpublished October 13, 1977 statement to the Task Force on Distributive Impacts of Budget and Economic Policy, Committee on the Budget by Robert Reischauer, Assistant Director for Human Resources and Community Development, Congressional Budget Office.

[40]Lampman (1975).

REFERENCES

Apple, Gary L. 1972. The effects of a financial incentive in AFDC employment: Michigan's experience between July 1969 and July 1970. March. Minneapolis: Institute for Interdisciplinary Studies.

Barlow, Robin; Brazer, Harvey E.; and Morgan, James N. 1966. Economic behavior of the affluent. Washington, D.C.: The Brookings Institution.

Bolland, Barbara. 1973. Participation in the Aid to Families with Dependent Children program. In Studies in Public Welfare, paper no. 12 (Part 1), Joint Economic Committee Subcommittee on Fiscal Policy. November 4. Washington, D.C.: U.S. Government Printing Office.

Bradbury, Katharine et al. 1977. The effects of welfare reform alternatives on the family. Special Report SR 13. Madison: Institute for Research on Poverty, University of Wisconsin.

Davis, Karen. 1977. A decade of policy developments in providing health care for low income persons. In A decade of antipoverty programs, ed. Robert H. Haveman. New York: Academic Press.

Feldstein, Martin J. 1974. Unemployment compensation: adverse incentives and distributional anomalies. National Tax Journal, 27: 231-44.

Friedman, Milton. 1962. Capitalism and freedom. Chicago: University of Chicago Press.

Garfinkel, Irwin, and Plotnick, Robert. 1976. How much does unemployment insurance increase the unemployment rate and reduce work, earnings and efficiency? Discussion Paper 378-76. Madison: Institute for Research on Poverty, University of Wisconsin.

Gramlich, Edward M. 1974. The distributional effects of higher unemployment. The Brookings Papers on Economic Activity, vol. 2. Washington, D.C.: The Brookings Institution.

Kemper, Peter, and Moss, Philip. 1977. The efficiency of targeted job creation: conjectures based on the early Supported Work experience. Discussion Paper 409-77. Madison: Institute for Research on Poverty, University of Wisconsin.

Lampman, Robert J. 1974. What does it do for the poor? A new test for national policy. The Public Interest 34: 67.

Lampman, Robert J. 1975. Scaling benefits to income: An idea that is being overworked. Policy Analysis 2(1): 1-10.

MacDonald, Maurice. 1977. Food, stamps, and income maintenance. New York: Academic Press.

MacDonald, Maurice, and Sawhill, Isabel V. 1978. Welfare policy and the family. Public Policy, 26: 89-119.

Masters, Stanley. 1977. Analysis of nine-month interviews for Supported Work: results of an early sample. New York: Manpower Demonstration Research Corporation, September.

Masters, Stanley, and Garfinkel, Irwin. 1978. Estimating labor supply effects of income maintenance alternatives. New York: Academic Press.

Maynard, Rebecca. 1977. Analysis of nine-month interviews for Supported Work: results of an early AFDC sample. New York: Manpower Demonstration Research Corporation, October draft.

Moon, Marilyn. 1977. The measurement of economic welfare: its application to the aged poor. New York: Academic Press.

Moynihan, Daniel P. 1973. The politics of a guaranteed income. New York: Vintage Books.

National Urban League. 1975. Income maintenance: the National Urban League position. New York: The National Urban League.

OECD. 1976. *Public expenditures on income maintenance programs*. Studies in Resource Allocation no. 3. July. Paris, France: OECD.

Schorr, Alvin L., ed. 1977. *Jubilee of our times*. New York: Columbia University Press.

Special analysis of the budget: Fiscal year 1978. 1978. Washington, D.C.: Government Printing Office.

Tuma, Nancy B.; Hannan, Michael T.; and Groeneveld, Lyle P. 1977. Variation of time in the impact of the Seattle and Denver income maintenance experiments on the making and breaking of marriages. Center for the Study of Public Welfare Research Memorandum 43. Menlo Park: Stanford Research Institute, February.

U.S. Chamber of Commerce. 1976. *High employment and income maintenance policy*. Washington, D.C.: U.S. Chamber of Commerce.

U.S. Committee on Economic Security. 1935. *Report*. Washington, D.C.: Government Printing Office.

U.S. Department of Health, Education, and Welfare, Office of the Secretary. 1977. *Better Jobs and Income Act HR 9030: A summary and sectional explanation*. September 13. Washington, D.C.: Government Printing Office.

Watts, Harold W., and Rees, Albert, eds. 1977. *The New Jersey income maintenance experiment, Volume 2: labor-supply responses*. New York: Academic Press.

Witte, Edwin E. 1963. *The development of the Social Security Act*. Madison: University of Wisconsin Press.