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WELFARE REFORM: WHITHER THE FUTURE?

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## ABSTRACT

The overarching problem with welfare today is that we have too much of it. That is to say, too much of our income support system is income-tested programs (welfare) with universal programs.

Universal programs, which provide benefits to everyone, in combination with any politically feasible range of tax rates in the positive tax system, will provide greater net benefits to the poor, the near poor, and the lower-middle-income groups, and cost more to those at the upper end of the income distribution than those that restrict their benefits only to the poorest. Compared to universal programs, welfare programs reduce the opportunity of the poor to better themselves through hard work and sacrifice because they impose very high tax (benefit reduction) rates on the poor.

Income-tested programs also segregate the poor. They place the poor in separate politically vulnerable programs, which encourage them to work less, save less, cheat more than the rest of us, and, in my view, exacerbate class distinctions.

Universal programs integrate the poor into society by including them in the same programs and institutions and subjecting them to the same set of rules, the same incentives to work, save, and cheat as are faced by the rest of us. In short, universal programs integrate the poor into society by treating them more equally. They also integrate the poor into society by reducing the differences between those at the top and those at the bottom more than income-tested programs with the same basic benefits, i.e., by increasing overall economic equality.

However, in the case of fixed budget constraints (that is, in some short-run situations) income-tested programs are clearly better than universal programs, in the narrowest economic sense, for all those who receive benefits from them. Given the political constraints we faced during the late sixties and seventies the income-tested strategy probably resulted in a higher social minimum than would have resulted from a universal strategy. Had a universal strategy with equivalent basic benefits been politically viable, I believe we would have been better off economically and socially to have pursued it. But such was probably not the case.

Now is the time to move forward toward the goal of substituting universal for income-tested programs because doing so is the next logical step in welfare reform; because doing so would cure many of the most important problems of the welfare system; because we have probably reached the outer limits of income testing; and because doing so will help remind us why universal is better.

## Welfare Reform: Whither the Future?

### "Programs for the Poor Become Poor Programs"

Welfare reform is now a national pastime. Since 1961, when President Kennedy delivered the first Presidential address devoted exclusively to the subject of welfare, we have had one Presidential Commission, one major Congressional Study, and two Inter-Agency Task Force Studies of the Welfare Problem. We have also had two major Presidential proposals for welfare reform--one Democratic, one Republican--both allegedly based on the demonstrated bankruptcy of the existing welfare system and both calling for the complete overhaul of that system. Finally, by conservative count, there have been three major pieces of welfare reform legislation.

Welfare reform, however, is not new. The 300 year history of welfare in the United States consists of one reform after another. Indoor relief was replaced by outdoor relief and vice versa, nonwork relief by work relief and vice versa, cash relief by in-kind relief and vice versa.

What is wrong with welfare that it needs to be reformed so often? Why does it need to be reformed now? Experts can give you a list of 8 to 10 problems at the drop of a hat. That's too many. Other than experts and students who have just crammed for a final, who can remember a list of eight problems?

At the risk of simplifying too much, I will argue that the overarching problem with welfare today is that we have too much of it. That is to say, too much of our income support system is income-tested. The overarching

cure, therefore, is to replace income-tested programs (welfare) with universal programs.

#### 1. SOME DEFINITIONS AND SOME BACKGROUND

By universal, I mean a program for which income is not a condition of eligibility. In such a program rich and poor alike participate because gross benefits are not related to income. The net (after tax) benefit, of course, depends on the amount of taxes paid and will vary with income to the extent the tax system does.<sup>1</sup> In this sense free public education and social security and Medicare are universal; Aid to Families with Dependent Children, Food Stamps, and Medicaid are income-tested.

It is useful here to relate universal and means tested to the term "categorical." A categorical program is one in which eligibility is limited to certain groups in the population--such as the aged, children, etc. Categorical programs, in this sense, may be either means-tested or universal. I do not, thus, use the term universal to mean the opposite of categorical. Universal, as I use it, is the opposite of means testing, or income testing, or welfare--all three of which I use interchangeably. Old Age Insurance and children's allowances are categorical universal programs as the terms are used here; the Supplemental Security Income is a categorical income-tested program; a program for which eligibility depends only on income (such as the negative income tax) is a noncategorical income-tested program; a program in which gross benefits are paid to everyone in society (such as a demogrant or credit income tax) is a noncategorical universal program. In one sense, a program in which only the poor participate may be said to

be categorical, where the category is poverty. For the sake of clarity, however, I will retain the four-way distinction between categorical and noncategorical, and universal and income-tested.

In the first section of the paper I present the case for making the substitution of universal for means-tested programs the long-run objective of the social work profession and, more broadly, of anyone committed to reducing poverty and promoting the integration of the poor into the rest of our society. In the second section I argue that if there is a fixed budget constraint in the short run, whether to enact new universal programs or expand existing programs (universal or income-tested) is a complex tactical question on which people with equal commitments to the long-run objective of universal programs may well disagree. As an illustration of this argument I consider the impressive expansion of income-tested programs during the 1960s and early 1970s and argue that our scientific knowledge is simply not good enough for us to know whether the poor or the rest of society would have done "better" if, instead, we had increased expenditures on existing universal programs more than we did and/or developed new universal programs. In any case, we did what we did. The question now is what should we do now.

That is the subject of the final section, where I argue that (1) we should push for large new universal programs and substantial changes in some existing universal programs but at the same time propose and be willing to settle for specific small steps in that direction, and (2) we should also be willing to support small improvements in the welfare system while simultaneously educating the American public to the virtues of the universal approach.

In advocating universal rather than income-tested programs before a social work audience, I feel somewhat like the Prodigal son. My very first article published in a scholarly journal, "Negative Income Taxes and Children's Allowance Programs," argued for the former against the latter.<sup>2</sup> Clearly a little bit of knowledge was a dangerous thing for me. I wrote the article in 1967, when I was a second year Master's degree student in social work and when the profession in general stood for universal programs, including children's allowances. I had learned a little economics-- enough to learn by rote the dominant gospel in economics that a negative income tax was superior to a children's allowance and enough to write an article for social workers challenging the social work gospel for children's allowances.<sup>3</sup> I have spent the last decade learning enough economics to be able to return to you and say that the economics gospel I had learned then was at best a partial truth.

Ironically, as I argue in the next section, we economists were misled precisely because we are the most methodologically sophisticated of the social sciences. Methodological sophistication always runs the danger of inducing myopia. My current belief is that the historical position of the social work profession in favor of universal programs (though not necessarily the particular case of children's allowances) can be at least as solidly grounded in scientific argument as the alternative position and for my money is more solidly grounded in ethics.

## 2. THE LONG RUN CASE FOR UNIVERSAL PROGRAMS

Why am I convinced that the profession should favor universal programs? There are many reasons.



To understand the most important of these one must understand the basic economics of universal and income-tested programs. Programs that provide benefits to everyone, in combination with any politically feasible range of tax rates in the positive tax system, will provide greater net benefits to the poor, the near poor, and the lower-middle-income groups, and cost more to those at the upper end of the income distribution than those that restrict their benefits only to the poorest. This is true of free public education in America, for example, which provides net benefits (that is, greater benefits received from the educational system than taxes paid to support it) for the very poorest, near poor, and a sizable chunk of the middle income groups. The net costs, consequently, are borne by the upper middle and upper income groups. If we subsidized the education of only the very poor, only the very poor would receive more benefits than they paid in taxes, and the costs of the program could be shared among everyone else--near poor and lower middle income people as well as those with the highest incomes.

Only if a universal program were financed by a highly regressive tax (much more regressive than the payroll tax for Old Age Insurance, for example) would this not be true. Consider the following example: Start with an income-tested program with, say, a 50% benefit reduction (tax) rate, and guarantee (basic benefit) and breakeven levels high enough for the bottom fifth of the population to be eligible for aid. Assume that the program is financed by a 5% proportional tax on all income in excess of the breakeven level. For a universal program with the same basic benefit to have a less progressive net impact, it would have to be financed by a regressive tax rate structure which taxed all income from the first dollar up to the breakeven level at a 50% rate, and taxed all dollars in excess of that

level at only 5%. I assert that such a regressive tax, if explicit, could never become law in this country--though implicitly that is what we do each time we opt for a means-tested rather than a universal program.<sup>4</sup>

This basic economics of income testing makes it clear that the economic choice between income-tested and universal programs rests, in fact, on values about what is a preferable income distribution--one in which the upper middle and upper classes are better off and the lower middle class, the near poor, and the poor worse off; or vice versa. If that is the choice, the social work profession will have no difficulty in making it. Our entire professional identity is bound up in helping those less fortunate than ourselves. We have always stood for greater equity, fairness, and equality.

A second critical economic difference between universal and income-tested programs also stems from the tax rate problem. Compared to universal programs, welfare programs reduce the opportunity of the poor to better themselves through hard work and sacrifice because they impose very high tax (benefit reduction) rates on the poor. In the extreme case of 100% tax rates, this opportunity is completely removed. If the welfare poor earn another dollar, their benefits are reduced by that whole dollar. If they save and invest during their youth to provide for old age, their benefits are reduced by one dollar for each dollar their savings earn. As economists always point out, high tax rates reduce incentives to work and save; 100% tax rates eliminate them.

Analogous reasoning applies to an even more important issue in my judgment--the issue of opportunity for self-improvement. High tax rates reduce the opportunity to improve one's position by working hard; 100%

tax rates eliminate it.<sup>5</sup> The poor start out with less chance of success than the nonpoor: They are born to poorer families, get less education, and can earn much less than the rest of us. A 50% benefit reduction rate reduces the payoff for a \$2.50 per hour job to \$1.25. What is the justification for reducing the already small degree to which a poor person can improve himself through hard work by even as much as 50% when we do not reduce the percentage amount by which much wealthier Americans can improve themselves through hard work by an equivalent amount? Is there any justification for preferring to aid the poor through income-tested rather than universal programs when the former relative to the latter exacerbate already existing inequalities of opportunity? I see none.<sup>6</sup>

Another adverse incentive inherent in high tax rates is the incentive to cheat. The higher the tax rate, the greater the incentive to under-report income. I am enough of an economist to believe that some people do respond to economic incentives sometimes. If the poor are neither better nor worse than the rest of us, a consequence of imposing higher tax rates on them is that more will cheat. Is this desirable social policy? I doubt it.

Other noneconomic considerations reinforce my case. First, to many beneficiaries and potential beneficiaries one of the costs of participating in a welfare program is a loss of pride. To receive benefits, they must declare themselves poor. In our country, where so much stress is put on economic success and where the dominant ideology is that "with hard work, anyone can make it," to declare oneself poor is almost synonymous with declaring oneself to be a failure. A universal program, by definition, does not restrict eligibility according to income.

Second, subjecting rich and poor alike to the same set of rules via a universal program reduces the likelihood of differential treatment by income class. Income-tested programs ensure differential treatment by income class because low income is a defining criterion. Some differential treatment by income class is, of course, still possible within universal programs. (For example, it is possible to administer the work test in the Unemployment Insurance program more harshly against the poor than the rest of us.) But all the pressures for routinization and uniformity that accompany bureaucracies work in the opposite direction. Middle income and rich people will insist that they be treated with dignity. Given the pressures for uniform treatment in bureaucracies, therefore, the poor will get at least some of the same respect.

Third, universal programs are likely to have more political stability over the long run than income-tested programs because they provide net benefits to so many more of the population. Increasing the incomes of the poorest members of society to what is considered a decent standard of living will continue to be a government objective for the foreseeable future. The long-run political stability of institutions designed to achieve this objective is thus an important consideration.

Fourth, income-tested programs create a sharp distinction between beneficiaries and nonbeneficiaries. This, it can be argued, accentuates class divisions; the same logic argues that universal programs mute such divisions.

Note, however, that there is little empirical research on the severity of stigma, or the differential effects of income-tested and universal programs on the dignity and self-image of the poor, or the

political stability and social cohesion in society. Thus, while the social work profession has put great stress on these arguments, economists and other public policy analysts have remained skeptical. Of course, the absence of good empirical studies should not be taken as an indication that the subject is unimportant. Importance is only one criterion used in deciding what to study. The ease of measuring the phenomenon is another. What will be funded is a third. In any case, while we have no evidence on the magnitude of these effects, the a priori arguments that universal programs are superior to income-tested ones with respect to minimizing stigma and promoting social cohesion and political stability are strong enough to convince me that the effects are greater than zero.

All these differences between universal and income-tested (or welfare) programs are related to the values of equality and integration. Do we want to integrate the poor into our society or segregate them? Income-tested programs segregate them. They place the poor in separate politically vulnerable programs, which encourage the poor to work less, save less, cheat more than the rest of us, and which, in my view, exacerbate class distinctions.

Universal programs integrate the poor into society by including them in the same programs and institutions and subjecting them to the same set of rules, the same incentives to work, save, and cheat as are faced by the rest of us. In short, universal programs integrate the poor into society by treating them more equally. They also integrate the poor into society by reducing the differences between those at the top and those at the bottom more than income-tested programs with the same basic benefits, i.e., by increasing overall economic equality.<sup>7</sup>

Given the attractiveness of universal programs to those who prefer more to less equity, more to less equal opportunity, more to less integration, and more to less equality, why has the gospel of income testing become so dominant in the economics profession and, more broadly, the public policy analysis community? It can hardly be that the economics profession has less than its fair share of men and women who believe in more equality and are capable of perceiving and designing programs that further their enlightened rather than their narrow self interest.

Possible arguments against universal programs do exist. For example, because universal programs cost more to the wealthy than income-tested programs, it might be argued that they reduce the incentives to become wealthy more than welfare programs. Related to this is a second argument, that total GNP might be smaller under universal than under income-tested programs.<sup>8</sup> What little evidence we have that bears on these points, however, suggests that the disincentive effects of high tax rates on the wealthy are trivial to nonexistent.<sup>9</sup>

A third possible argument is that either running the extra tax dollars needed to finance universal programs through the public treasury or enlarging the size of the public sector in the production sector will have deleterious effects on social cohesion and perhaps even freedom.

There is no evidence on this as yet but my own hypothesis is that such evidence will show that (1) the extra human capital we tap by integrating the poor into society will more than offset any extra disincentive effects of higher tax rates on the upper income groups, (2) freedom is more likely to flourish in the long run in an integrated

egalitarian society, (3) the upper income groups will also benefit from a more integrated egalitarian society because it will be more peaceful, less crime ridden, and more confident and outward looking, and (4) a majority at least of upper income people will prove willing to pay more taxes to live in such a society as long as they are made cognizant of the benefits to themselves as well as to others. In any case, none of these issues were raised in the income-testing debate during the 1960s.

To understand why economists and the public policy analysis community have become so focused on income testing during the past decade and a half, we must recall the political environment: All the Great Society programs, with the exception of Medicare, were financed out of the fiscal dividend which came from restoring full employment. By 1966, President Lyndon Johnson was committed to financing a major and growing war without anybody noticing it. If Johnson had raised taxes people clearly would have noticed. So he had to ignore the advice of his economists to raise taxes to prevent inflation. Consequently, despite the fact that Lyndon Johnson was the biggest "social spender" since Franklin Delano Roosevelt, it was clear from 1966 on that tax increases were not politically feasible under his administration. (Payroll taxes, of course, were and continue to be an exception--and an interesting one in that they are explicitly tied to financing a universal program.) Beginning in 1968 we had two Republican Presidents who would not have considered any welfare reform proposal that would require explicit tax increases. We now have a Democratic President who says he will not consider proposals which increase the share of total income being taxed. Indeed, his initial directive to his welfare reform staff was to produce a reform proposal

with a zero incremental budget cost. Thus, the welfare reform debate has taken place for over a decade in an environment in which everyone close to government believed that the amount of dollars that would be "budgeted" for welfare reform was more or less fixed at current (low) levels. And economists precisely because they are the most scientifically advanced of the social sciences are closer to government than other social scientists. It is not surprising, therefore, that practical economists accepted the implicit assumption that the budget available for welfare reform was fixed and small. As government civil servants, analysts, and consultants, they were told so.

This snippet of history leads us directly into the difference between the short- and long-run economics of income-testing.

### 3. SHORT-RUN TACTICAL CONSIDERATIONS

In the case of fixed budget constraints (that is, in some short-run situations) income-tested programs are clearly better than universal programs, in the narrowest economic sense, for all those who receive benefits from them. Lower middle, middle, and upper income families would be slightly better off under universal programs but not by very noticeable amounts. If the total budget available for universal and income-tested programs is the same, thus, there is a case for income-tested programs on distributional grounds. (Many economists who advocated income-tested programs were doing so with the intent of championing the poor--for they believed the total budget available would be the same whichever program was chosen.) If the basic benefits to the poor are to be the same for



both programs, precisely the opposite is true. Universal programs are better for the poorest members of society because their net tax rate is lower (by the argument made earlier in the paper).

Which type of program is in fact better for the poor, therefore, depends on whether the total budget or the basic benefit is to be the same for both--which sounds more like a political science question than an economics one. During certain short periods of time, such as the last 15 years, the budget available for transfers may appear to be or actually be small and fixed, whether the program is to be universal or income tested. But surely this is not the case in the long run. How else can we explain that, despite the recent growth of income-tested programs, total expenditures on universal programs in the U.S. are four times as large as expenditures on income-tested programs? Unequal budgets, of course, do not guarantee equal basic benefits. My hunch is, however, that in the long run basic benefits in income-tested programs will be no higher and perhaps even lower than those in universal programs. In the absence of reliable scientific evidence either way, I will assume my hunch is correct--so long as there are people who fight for universal programs. The last qualification is terribly important. It indicates that whether budgets or basic benefits are the same for universal and means-tested programs is not only a political science question--it is a political question. Unless political outcomes are inevitable, not susceptible to human will, what we and other advocates of the poor do will help determine whether the budgets or benefits will be the same for universal and means-tested programs.

Economists and other policy analysts, however, did not perceive this. In their role as employees of and advisors to government they appropriately sought to serve government rather than to change it. Of course an academic's role qua academic is neither to serve nor to change but rather to understand. Objective analysts would note that universal programs are better for the poor if basic benefits are equal as well as noting that they are worse if budgets are equal. But economists and other policy analysts took their perception of short-run political reality to be the only reality. They thus translated the apparent short-run fact of life that taxes could not be raised into the implicit assumption that taxes and expenditures should be considered fixed in any universal/income-tested program comparison. This implicit assumption found its way into the denominator of target efficiency--a criterion and measure invented by academic economists and adopted by the federal government to evaluate alternative transfer programs.

Target efficiency is simply the proportion of total (gross) benefits of a program that goes to the poor. Income-tested programs obviously score better on this criterion than universal programs--since nearly all the benefits of the former go to the poor while the gross benefits of universal programs by definition go to people irrespective of income.

Such a measure has nothing to do with economic efficiency.<sup>10</sup> From the point of view of upper middle and upper income people who care only about raising the incomes of those with no income of their own--generally though not invariably the poorest of the poor--an income-tested program is obviously more efficient than a universal program. But that is just another way of saying what has already been said above, that income-

tested programs are less costly than universal programs to upper middle and upper income families.

It is only a half truth to say that universal programs are more costly or inefficient than income-tested programs. The full truth, the more precise and scientifically accurate statement, is more complicated: Compared to income-tested programs with the same basic benefit levels, universal programs are more costly to (and if one doesn't mind misusing the term, less efficient for) upper middle and upper income people because they are of greater benefit to the poor, near poor, and lower middle income groups. If one assumes that the total budget is fixed, of course, then target efficiency does measure the extent to which alternative programs are pro-poor. In my judgement, it is this implicit political assumption rather than concern for the narrow economic interests of upper income people that gives target efficiency its normative content and appeal.

But what of the short run? What if it appears that budgets are fixed in the short run? In this case, advocates of the poor should urge political leaders and all citizens to compare the merits of universal and income-tested programs with equal benefits. If we don't, who will? And if no one does, there will never be a chance for universal programs. If political leaders of the moment refuse to consider universal programs on the grounds that they are "too expensive," these leaders should be reminded that universal programs are more expensive only to some and that is because they are more beneficial to other, poorer Americans. If they still refuse to spend anything but a small absolute budget amount on any transfer program, we might have to accept income-tested programs as the best we could do in the short run.

I say "might" because even if we can get more dollars in the short run to poor people through income-tested programs, the short-run case for income-tested programs, while persuasive, is still not overwhelming. Short-run political or tactical judgments are always difficult. Men and women of good will with the same long run objectives frequently disagree passionately about tactics. Do universal programs grow more quickly than income-tested programs? If so, do they grow quickly enough to offset the short-run advantages to the poor of the latter? If there are short-run monetary advantages to the poor in income-tested programs, do they offset the non-monetary advantages of universal programs? These are complex questions, which cannot be answered in the abstract.

Consider for example the explosion of income testing during the 1960s and early 1970s. Expenditures on income-tested transfers (including AFDC, SSI, Food Stamps, Basic Educational Opportunity Grants, Housing Assistance, and Medicaid) grew from a little over \$5 billion in 1965 to \$43 billion in 1977. The achievements of this explosion are notable. Most importantly, these expenditures increased the incomes of the poor and near poor by over \$20 billion, and at least part of the large Medicaid expenditure increases between 1965 and 1977 served to increase the access to health care of poor people.

The Food Stamp Program established for the first time a noncategorical welfare program entitling all Americans to a uniform nationwide minimum income guarantee--in food purchasing power. The Medicaid program established minimum standards in health benefits--albeit ones which varied from state to state.

Until a decade ago, 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 66% on 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 benefits, and thereby increase the costs of these programs to middle and upper income families. Shifting entirely from a welfare to a universal program approach would intensify these effects.

Welfare programs have been changed in other ways as well which make them more like universal programs. 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. Caseworker discretion has given way to more automatic impersonal entitlement rules. Assets tests, a distinctive 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, both the name of the new Supplemental Security Income Program and the choice of the Social Security Administration to administer it 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.

All this was achieved without once raising federal taxes explicitly. All this was achieved first under a Democratic President who wouldn't consider raising taxes because he wanted to keep the cost of his Vietnam

War secret, and second under two Republican Presidents. Would either the poor or the nonpoor have been better off now or in the interim if, instead of this explosion in income-tested programs, we had enacted a small children's allowance or increased some social insurance benefits by a somewhat greater amount than we did? I don't think we have the scientific evidence to make a strong case either way. No doubt we would now have the objective of universal programs more securely in mind. But if there had truly been a short-run fixed budget constraint, we would not have achieved as high a social minimum (defined by the basic benefit levels in our income-tested programs). Was there really an identical budget constraint during this period for income-tested and universal programs? Probably not. But the budget for universal programs would have had to be manyfold that for income-tested programs for universal programs to have provided as high a minimum as income-tested programs. Perhaps it was, but we will never know.

One last comment on tactical considerations in general and the negative income tax versus children's allowance debate in the 1960s in particular. While social workers pushed for nonincome-tested programs, economists pushed for noncategorical programs. Economists were bewildered by the fact that we gave money to people who fit into one category or another--except poverty per se. To most economists children's allowances were and still are too categorical. Because they are confined to children they cannot be set high enough to provide a sufficiently high social minimum to families without increasing substantially the public subsidy for raising children. Now that we are concerned about a declining population this may not appear to be of great importance, but it

appeared to be a very serious social cost in the 1960s when we had become quite concerned about a population explosion. Moreover, no aid is provided by a children's allowance to single individuals and childless couples--a sizable group of the poor. As a short-run strategy of achieving a noncategorical, nonincome-tested, income support system, a children's allowance might have been a good strategy. But who can be certain that it was feasible, or if feasible, better than what we actually did? I think the answer is none of us can. And, does it really matter? After all we can't redo history. Still, there is a lesson here. If my argument about the absence of a good scientific basis for deciding tactical short-run questions is correct, then a bit of modesty is in order. And, in particular, we must take care to never let the best become the enemy of the good.

To summarize, then, given the political constraints we faced during the late sixties and seventies the income-tested strategy probably resulted in a higher social minimum than would have resulted from a universal strategy. Had a universal strategy with equivalent basic benefits been politically viable, I believe we would have been better off economically and socially to have pursued it. But such was probably not the case. Sometimes progress comes in funny indirect ways.

#### 4. WHITHER THE FUTURE

I have argued that the social work profession and all other advocates of the poor should support the long-run objective of substituting universal for income-tested programs but remain prepared to compromise on income-tested programs in the short run if, for political reasons, the budget

available for transfers of any kind is small. What then should we do now, when we have a Democratic President who makes populist noises about welfare, tax reform, and justice, at the same time as he says the percentage of GNP going to taxes must not be increased?

I believe the social work profession through its formal organizations (such as NCSW, NASW and APWA) should urge President Carter and the Congress to fight for universal rather than income-tested support programs. By urging them to do so, we will be helping to educate them and the American people to the issues involved in income testing. We should lay out a long-run agenda for reform that includes such major new programs as an age-related demogrant or credit income tax, some kind or kinds of universal programs that provide additional aid to female headed families, and a non-income-tested national health insurance program.<sup>11</sup> But we should also propose short-run incremental changes that will insert more universality into the overall system and lead us gradually into these new programs. In the current political environment, these may turn out to be critical. Several particulars are suggested below. Finally, we must be prepared to support some reforms of existing income-tested programs even as we seek to educate the nation to the virtues of universality.

This is the context in which President Carter's welfare reform proposal should be evaluated. In my judgment, it represents a modest improvement in our income support system. But candidate Carter kept summoning us to something better. If he had a campaign theme it was captured by the title of his autobiography, "Why Not the Best?" His reform proposal is not a big enough first step in the task of curing what is wrong with welfare. And we should tell him so.



The President's proposal has four major parts. First, the federal government would fund 1.4 million minimum wage jobs in an attempt to provide a job to the head of every family with children. Second, there would be a federal minimum benefit in what is now called AFDC (the Aid to Families with Dependent Children Program). Third, Food Stamps, the only welfare program which pays uniform federal benefits based principally on family size and income, would be replaced by a federal cash program. Fourth, the earned income tax credit (EITC), which increases the take home pay of low wage workers, would be significantly expanded.

There are strengths in the Better Jobs and Income Proposal. The jobs program is a beginning on making good our belief in self-reliance and independence by taking a step in the direction of guaranteeing the opportunity to work and be self-reliant. A federal minimum benefit in the AFDC program would raise AFDC benefits in twelve of our poorest states, provide some fiscal relief to all states--though not much to states with current high benefits--and set the stage for further federalization of the program. Replacing food stamps with a cash program would have virtually no effect on nutrition, but it would lessen stigma by subjecting beneficiaries to the stigma of welfare only once--when they apply. Food stamps now stigmatize each time people buy stamps and each time they spend them. Finally, expanding the earned income credit would provide more income to the working poor without taking them through the welfare system.

There are also weaknesses. We know precious little about how to operate a massive jobs program. More important, the federal minimum benefits in the cash program are too low--actually slightly lower in real terms (as a proportion of the poverty level) than the benefit levels in

former President Nixon's 1969 welfare reform proposal. In my judgment the strengths outweigh these weaknesses.

The principal weakness in Carter's Better Jobs and Income Program (and in alternative Congressional proposals being given serious consideration), however, is one of omission. Aside from the expansion of the earned income credit, nothing being discussed indicates a desire to reduce the scope of welfare by increasing the aid provided to the poor through universal programs.

The proposed expansion of the earned income credit is a small step in the right direction. 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 and sacrifice. The only way to reduce the high tax rates on the poor and near poor without creating an intolerable "notch," 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.

But we can and should go further. As part of his income tax reform proposal, the President has proposed a nonrefundable \$250 per capita tax credit as a substitute for personal exemptions in the federal income tax. This is a desirable reform. If the credit were made refundable it would be a universal income support program. It could be administered the way all the other Western industrialized countries administer their universal children's allowance programs. Checks could be mailed to

everyone once a month and the appropriate increase in taxes required to finance the program could be withheld at source.

Another point: Under current law, 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. Whether these worthwhile objectives are furthered by this favorable tax provision or outweigh the resulting inequity between homeowners and renters is debatable. What is not debatable, however, is that 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 thus 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.

The kind of national health insurance system we adopt will also be critical. Will it be income tested or universal? Will it further segregate our poorer citizens from the rest of society or further integrate them? National health insurance proposals of the welfare type such as that proposed by former President Nixon would raise tax rates on the poor and near poor to about 70%. Such high tax rates on such

a large fraction of our population should be unacceptable to the Carter Administration and the American people. If initial costs for budgetary or political reasons must be kept lower than ultimate costs, then we should begin with a national health service for all children.

Some income maintenance experts are advising the Carter Administration and the Congress to eliminate all features of the Social Security program (Old Age Insurance) such as minimum benefits and benefits for spouses and other dependents, (Congress has already taken some steps in this direction) that favor lower income people. These experts say that the worthwhile objective of aiding poorer citizens can be achieved more "efficiently" through the Supplemental Security Income Program--a welfare program for the aged. Will we follow the advice of these particular experts and push more old people onto welfare? Or will we try to reduce the number of aged on welfare by, for example, increasing and rationalizing the minimum benefit so that it is a more effective and equitable way of reducing poverty?

Now is the time to move forward toward the goal of substituting universal for income-tested programs because doing so is the next logical step in welfare reform; because doing so would cure many of the most important problems of the welfare system; because we have probably reached the outer limits of income testing; and because doing so will help remind us why universal is better. I shall deal with each of these in turn.

As noted above, most of the reforms of the past decade or so have made welfare more like universal programs. Making them even more like universal programs by making them actually universal is, therefore, a logical continuation of what we have already done.

The welfare system is justly criticized for creating serious work disincentives for the poor. Welfare reformers have sought successfully to reduce tax rates in several programs. But Congress has also added new income-tested programs. The tax rates in each separate program cumulate to very high rates for multi-program beneficiaries. The best way to reduce these high cumulative tax rates on the poor and near poor is to go even further and convert from income-tested to universal programs. Then the work disincentive effects of modest guarantees will be of less concern because the poor will have a real shot at doing much better than the guarantee.

The welfare system is criticized for being too complex--an administrative nightmare. Universal programs are simple: an administrator's paradise.

Finally, consider the apparently inconsistent criticisms that welfare is (1) too costly and (2) inadequate. Despite the great strides we have made in humanizing welfare programs during the 1960s and 1970s, no political figure of note takes great pride in the number of welfare beneficiaries we have. (Indeed, we still call them "recipients" to distinguish them from "beneficiaries" of social insurance programs.)<sup>12</sup> As a consequence, while many political figures say welfare is too costly, none says it is not costly enough. One way to reduce welfare costs is to expand universal programs. When Lyndon Johnson proposed a 15% across the board increase in social security benefits in 1967, one of his explicit objectives was to remove 200,000 aged from welfare rolls. This objective, though not the particular strategy, should be revived. The only way to simultaneously increase adequacy and cut welfare costs and caseloads is through the substitution of universal for welfare programs.

The outer limits of income testing have been reached.<sup>13</sup> We cannot go on adding one welfare program after another without the cumulative tax rates from the combined programs becoming unacceptably high. Some of the welfare reform proposals in Congress would impose 80% tax rates on millions of people we expect to work. If we continue in this vein we will create a huge underclass living predominantly off transfers and irregular unreported earnings or illicit income. We will then have confirmed our worst fears about the poor--that they are lazy and dishonest. Who knows what will follow. Retrogression? Repression? Perhaps nothing more than a peaceful if belated shift to universal programs. But why take a chance?

Finally, now is the time to fight for at least one universal program in order to teach President Carter and allow him to teach the American people a lesson on why, for a compassionate people, universal programs are better. I am afraid that, as a people, we may have forgotten why. Moreover, I trust that in a democracy such a lesson is better learned and remembered when taught by a President than when taught by an academic.

## NOTES

<sup>1</sup>It should be remembered that the gross benefits of income-tested programs are not equal to the net benefits either, to the extent that the beneficiaries also pay positive taxes.

<sup>2</sup>"Negative Income Tax and Children's Allowance Programs," Social Work (October 1968), pp. 33-39.

<sup>3</sup>Obviously not every social worker favored children's allowances. Equally obviously not every economist favored a negative income tax nor, among those who did, was there agreement as to what they meant by a negative income tax and what they hoped to achieve. It is accurate to say, however, that the professions took the positions I state.

<sup>4</sup>By failing to increase the ceiling for the payroll tax in unemployment insurance, however, we may have de facto let this tax approach this kind of regressivity. I say "may" because if the tax is passed forward to consumers rather than backward onto workers, the incidence of the tax will be close to proportional rather than highly regressive.

<sup>5</sup>Bob Lampman first called this aspect of high tax rates to my attention.

<sup>6</sup>That is not to say that a justification may not exist. See the discussion about potential adverse efficiency effects on pages 10 and 11.

<sup>7</sup>None of this is to say that every expansion of existing universal programs or every proposal for a new universal program is desirable. For example, across the board increases in the Old Age Insurance Program are not a desirable way to expand that program. Rather, the minimum benefit should be converted into a flat pension or demogrant at the level of current SSI benefits much like that in several Western European countries. Similarly the income tax

credit for elementary, secondary, and higher education should in my judgment be defeated because the elementary and secondary provisions would weaken our public education system. The higher education part, however, is preferable in principle to the income-tested approach of such programs as the Basic Educational Opportunity Grants Program that the Carter Administration wants to expand. All specific proposals must, it should go without saying, be scrutinized carefully.

<sup>8</sup>The Insitute for Research on Poverty (IRP) has commissioned a set of papers on these subjects to be presented at an IRP conference this fall on income testing in transfer programs. For a description of the conference see the Institute newsletter FOCUS, Volume 2, number 3, Spring-Summer 1978. Some crude estimates of the differential effects of income-tested and universal programs on GNP will be presented at the Conference. The potential of ill effects through increasing the size of the public sector will also be addressed at the income testing conference.

<sup>9</sup>See Barlow, Robin; Brazer, Harvey E.; and Morgan, James N., 1966. Economic Behavior of the Affluent, Washington, D.C.: The Brookings Institution.

<sup>10</sup>Kesselman and Garfinkel examined crudely the differential economic efficiency effects and found they were trivial. See "On the Efficiency of Income Testing in Transfer Programs," Irwin Garfinkel and Jon Kesselman, Institute for Research on Poverty Discussion Paper #339-76. A paper to be presented at the income-testing conference will also treat this issue.

<sup>11</sup>A menu of such proposals and their distributional implications relative to means-tested programs will be presented at the income-testing conference.



<sup>12</sup>I've made a conscious effort during the last 5 or 6 years to use the term "beneficiary" even when I've referred to those aided by welfare, but the idea has not caught on.

<sup>13</sup>See Robert Lampman, "Scaling Welfare Benefits to Income: An Idea That is Being Overworked." Institute for Research on Poverty Reprint No. 145, 1975.