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WELFARE: A NATIONAL POLICY

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FOREWORD

The present welfare policies of the United States had their origins in the Great Depression of the thirties and in the programs launched by President Franklin D. Roosevelt's New Deal. At that time, the problem and the solution seemed simple. Millions of people were out of work and destitute, and private charitable as well as public local and state resources of relief were exhausted. Thus, federal power and money were needed to ensure the survival of poor Americans. Over the past forty years, the problem has become much more complicated, and the policies evoke controversy and seem to defy resolution.

In the hope of shedding light on these problems and policies, the Institute of Industrial Relations gathered four noted experts to speak at a conference at UCLA, entitled WELFARE: A NATIONAL POLICY, on September 29, 1972. The papers they delivered make up this publication. The viewpoints expressed, of course, are theirs and are not necessarily those of the Institute or of the University of California.

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POVERTY AND THE PRESENT WELFARE SYSTEM

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Introduction

The relief of the poor may be an ancient policy issue, but it is one that periodically reasserts itself. One generation's poor law never fits the needs of the next. This is so because changes in technology, in markets, in population, and in the structure of the economy combine to undo the best laid plans of social planners. When you add changes in need and changes in political taste, it becomes evident that any social welfare system necessarily requires constant reevaluation. What is remarkable about public assistance is not that we are groping for a new national policy, but that we have taken so long to get around to it.

A variety of solutions have been offered to the public by politicians, demagogues, special pleaders, and academics of all conceivable persuasions. There are, in fact, no new ideas on the subject (Stein, p. 72), and no cheap and magical solutions.

Generally, "solutions to the welfare problem" can be grouped in six categories which are not mutually exclusive:

1. paying lower benefits;
2. paying benefits to fewer people;
3. letting someone else pay, e.g.,
   (a) the federal government, for states, and state governments, for localities[1];
   (b) other states, i.e., exporting the poor;
   (c) private individuals;
4. calling it something else, e.g., Medicare, or veterans pensions;
5. getting work for welfare recipients at wage levels that reduce benefits without necessarily reducing the number of recipients;
6. reducing the incidence of poverty among the relief-sensitive poor.

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[1]For an empirical analysis, see Albin and Stein, 1971.

These solutions, and variants of them, will be referred to in the body of this paper, which consists of three major parts. First, I shall explore the broader issues of work and welfare, with emphasis on the existing non-labor market and labor market alternatives. Part II will examine some salient characteristics of our welfare system and the directions for reform that are indicated; relief in kind also will be briefly examined. The last part gives the dimensions and profile of poverty and reviews the range of policies that address themselves to the reduction of poverty, that is to say, Solution #6.

My message, if I have one, is that we can make the poor poorer by reducing welfare, or we can make the poor richer by paying more welfare and calling it FAP, or OFF, or some other acronym that sounds like detergent; or we can try to integrate as many of the poor and their young as is possible into the primary labor market and the mainstream of the economy. The first of these alternatives has a long history of futility in the annals of welfare reform. The second, on any effective scale, is not likely to attract much political support in a nation that is so doggedly opposed to income redistribution. The third alternative offers hope for the relief of welfare. The reforms it calls for go beyond welfare and deal with the economy and its labor markets. Progress is likely to be slow; millenia-old problems do not go away by legislative fiat. Even so, relief would not cease to be necessary, but it could become the residual program that provides the last line of protection against the occasional economic catastrophe that can befall any of us.

I

The Broader Issues of Work and Welfare

The Problem of Poverty Versus the Problem of Welfare

The search for a new national welfare policy, in which the nation is presently engaged, takes us over rather diverse ideological ground and through passions that run explosively deep when you consider that we are talking about 7 1/4 percent of the population and 4 3/4 percent of all government expenditures.[2] Note that the problem to which so much political energy is devoted is welfare in the sense of payments in relief of the poor! This marks an important change in emphasis *away* from poverty as the problem for which solutions are sought. The shift is a significant one because welfare problems are, after all, a sub-set of the larger problem of poverty, and not vice versa. The point calls for some elaboration.

Welfare payments are made to people who are poor, i.e., to people whose presumed access to socially desirable alternative means of support is not sufficient to enable them to meet the minimum standard

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[2] Computed from data on recipients, welfare expenditures (*Social Security Bulletin*), population (Census P-25), and government expenditures (*Survey of Current Business*.)

of need defined by each state's welfare agency.[3] With the exception of a few states, such standards of need fall well below the Social Security Administration's poverty line. Hence, the principal direction of causality is from poverty to welfare. This does not mean that a decline in poverty, as measured by the poverty line, necessarily leads to a decline in the number of welfare recipients. It does mean that there is scope for a rise in welfare recipients so long as the poverty population remains greater than the welfare population.

A good many people believe that the reverse is true. Welfare payments are said to sap the initiative of the recipient population by offering subsidized leisure as an alternative to work. Leisure is, after all, a highly prized commodity, whereas labor is irksome for most people. Accordingly, there will be some people who, if given the choice, prefer $2,000 a year without work to $4,000 with work.[4] Hence, it is argued that some people will choose to live in poverty and will transmit this preference to their children.

I am inclined to doubt that the significant cause of poverty can be found in this line of reasoning. I say this because the massive economic and demographic changes that resulted from the agricultural revolution of the last two decades are sufficient to explain much of the rise of the welfare-dependent poor in the face of a decline in the population below the poverty threshold. However, it is true that a choice between poverty on welfare and poverty with work may incline people toward the former. Welfare, in this way, causes welfare. This suggests that part of the welfare problem can be solved by paying less welfare, i.e., Solutions #1 and #2.

The two elements that presumptively establish the distinction between welfare poverty and poverty in general are (1) lack of access to socially desirable alternative means of support, and (2) an income level that is below the SSA poverty line. A qualification must be added to this: a supplicant who is neither old, blind, disabled, or a female caring for her minor children is presumed to have access to labor market income and is *ipso facto* disqualified from the federally subsidized welfare categories, except in the twenty-two states that participate in the Unemployed Parent Program (AFDC-UP) for which a male head of household who has exhausted his

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[3]But 39 states have maximum welfare payments below their own standards of need (NCSS, D-2, pp. 6-7).

[4]According to traditional economic theory, the supply of labor is derived from the choice between wage income and leisure. The potential worker calculates the disutility of work and the utility derived from income, and offers the amount of labor that equates the marginal disutility of work with the marginal utility of income.

unemployment insurance benefits may qualify.[5] Other indigents who do not neatly fit the federal categories may or may not be eligible for general assistance (GA), depending on the state in which they live. The growth of GA from $260,612 in 1965 to $760,559 in 1971[6] indicates that this is a lively part of the welfare sector. It is a "problem," however, only in states that have well-developed GA programs and thus feel the growing financial burden.

The currently engrossing issues that bedevil public discussions of welfare--lazy folks, chiselers, and so forth--focus on the first elements, lack of access to licit means of support. These can come from only four possible sources: (1) income from property, (2) dissaving (including borrowing), (3) private and public non-welfare transfer payments, i.e., help from husbands, relatives, friends, and Social Security, and (4) labor income. The first two of these do not apply to potential welfare recipients since the ownership of assets disqualified them. Controversy thus hinges on items (3) and (4). It is argued that welfare recipients do not obtain sufficient help from relatives, especially lawful or common-law husbands, and that they make too little effort to obtain income from the labor market. In both instances, the availability of welfare income is said to be the deterrent. Let us look at this separately as it pertains to the aged and to families with dependent children.

Non-Welfare Transfer Payments

The Aged

Non-welfare transfer payments can come from individuals, from various public programs with other labels, and from private charity. The question arises, to what extent is it socially desirable to compel members of a kinship group to support one another?

Many states consider it undesirable to compel adult children to support indigent parents; no state compels relatives, even so close as siblings, to render support. This is a social judgment, and perhaps a proper one. One can argue with considerable cogency that children ought to be responsible for their parents, and liable to prosecution for failure to do so (i.e., Solution #3c), but that is neither here nor there. States that have relieved children of liability continue to rely on stigma in order to deter the enormous potential of eligibles from using the system. This suggests that welfare programs were designed in the hope that not all eligibles would take advantage of them.

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[5] Definitions of eligibility are somewhat more complex, but the above will serve as a first approximation.

[6] Social Security Bulletin, Table M-24.

The principal public non-welfare transfer payments to the aged, however, operate on the implicit proposition that the present working population should be taxed as a whole for the support of their elders. This is, of course, what OAI (Social Security) is all about (Pechman, p. 71). Since OAI payments are a legitimate alternative to Old Age Assistance (OAA), the rise in OAA payments and recipients can be--and has been--inhibited by broadening OAI to "blanket in" more people, and by raising average and minimum benefits. States deduct OAI from OAA, and thus reduce their welfare expenditures. (Solutions #3a and #4).[7] A side effect of such a policy is to shift the outlays from general taxes to the more regressive payroll tax, but this has so far escaped public consciousness.

Medicare has had a similar impact on welfare outlays. The bulk of medical payments to the indigent aged, which used to be made through Medical Assistance to the Aged (MAA) and through OAA (before the passage of Kerr-Mills), are now carried on the all-federal Medicare. The effect is to reduce the amount of payments labeled as welfare. This suggests that, within some limits, the welfare problem can be reduced by shifting the payments to other budgets and by calling it something else (Solutions #3a and #4).

Families with Dependent Children

When we turn from OAA to the larger category of AFDC (Aid to Families with Dependent Children), the issue of private transfers becomes more complex and more controversial. It is taken for granted that fathers are financially responsible for their offspring. Enforcement, however, becomes an exercise in futility when the fathers are members of the poverty population who are themselves categorically excluded from welfare benefits, and whose labor market opportunities are highly restricted.

In many places, the concept of responsibility extends to second husbands (both lawful and common-law) and to any male who might be about. One important purpose of such an extension of responsibility is to find a reason for disqualifying the mother. This is in accord with the principle I expressed earlier--one way to reduce the welfare problem is to pay out less welfare (Solution #2). But beyond this there is an understandable and deep-felt ethic in the minds of most of our population that a father ought to take care of his children,

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[7] 61.4% of OAA recipients also receive OAI payments. Average OAA money payments to such recipients are only 70% as large as average OAA payments to non-OAI recipients (NCSS G-2 Tables 1 and 2).

that an adult male is responsible for all members of the household in which he resides, and that people ought not to have babies unless they are married. Welfare reformers who ignore the political potential of this ethic do so at their peril--or rather, at the peril of the group they are trying to help.

A word should be said here about private transfer payments from charitable sources. There was a time when these were thought to be a prime source of funding for the poor, although their contributions were always overstated.[8] The Depression diminished private charity by impoverishing its donors; thereafter, competition from the welfare system established by the Social Security Act drove it out of the cash relief business. Much of private charity is not aimed at poverty; that which reaches the poor generally involves transfers-in-kind such as medical care, social work services, and so forth. Even here, the impact of welfare programs like Medicaid is to substitute the more plentiful government funds for the less available private funds.

Labor Market Alternatives

Why don't they go out and get a job? The question is rarely addressed to OAA recipients, since work is not a socially desirable alternative for them. The question is addressed to the AFDC category, the group that provokes all the furor.[9]

The usual ethic of family responsibility requires men to work to support their families. But the men who have deserted the mothers of their children are effectively beyond the reach of the current welfare system. Accordingly, the pressure is directed at the mothers.

Those who drafted the Social Security Act did not intend for welfare mothers to work (U.S. Social Security Board, p. 233). This attitude was not necessarily shared by local welfare departments, especially in rural areas where work requirements were easily enforceable during seasons of peak demand for agricultural labor. And though the public may once have been ambivalent about the mother's place in the home, such ambivalence has declined in recent years as the labor

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[8] Before the Depression, the private sector paid about 25% of the nation's relief bill (Brown, pp. 5-7).

[9] I expect that the non-veteran disabled will soon sense pressure, since the number of recipients in this category has doubled since 1965, and now constitutes a million people. However, relief for veterans who are aged or who have non-service connected disabilities is completely insulated from the present crisis (Steiner, pp. 237-279).

force participation rate of married women with children has dramatically climbed. Since 1967, Congress has shown a clear preference for getting welfare mothers into the labor market (Solution #5). Whatever doubts may exist on this have been allayed by the term "workfare."

The social judgment that welfare mothers ought to work opens up a set of problems that need to be explored carefully in any realistic analysis of welfare and its alternatives. Some that stand out are work (1) at what jobs, (2) for what wages, (3) where, and (4) with what provisions for child care.

Jobs, Wages, and Locations

At first blush, the questions of what jobs, wages, and where appear to be answerable by the proposition that beggars can't be choosers. But not really. Given the education, skill, experience, location and cultural background of the target population, it appears that the licit labor market holds relatively few opportunities for this group. Changing technology, changing product markets, and the relocation of jobs out of the central city[10] lead to continuing diminution of work opportunities. I shall not belabor this point here. The high unemployment rates for women, blacks and Hispanic minorities, and the rates found in ghetto and rural poverty areas are indicators of the lack of opportunity for those among the poor who are actively looking for work (Schultze, p. 277). The female heads of household, who constitute the bulk of the welfare poor under consideration, are not likely to encounter better labor markets than those of the poor who are presently in the labor force.

The problem is not merely one of finding jobs, but of finding jobs that yield an income sufficient to reduce the level of dependency, if not poverty. If the earning abilities of the working poor are any guide, then the prognosis here is not very encouraging. Low-income female family heads who work are concentrated in the private household and other service sectors of the economy (Census P-60, Table G) where wage rates are low and employment tends to be erratic. In short, even if welfare recipients were employed, the earnings of most of them would be low (Schultze, pp. 276-278).

It is possible, of course, to create more low-income jobs, through work-relief programs or by subsidizing employers or workers. These possibilities are explored in the companion paper by Professor Killingsworth. It should be noted, however, that such programs shift some of the subsidies from the welfare poor to employers and consumers; this leads to income redistributions, the ramifications of which have not been fully explored by those who propose such programs. Furthermore, the

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[10]But c.f. Levitan, Rein and Marwick, pp. 63-64.

creation of a sub-minimum wage labor market may have some unpreventable spillovers. The working non-welfare poor may not be able to compete with the work-relief poor at the wage rates contemplated, for instance, by the Senate Finance Committee. (The Committee's "must work" plan calls for wages as low as $1.20 per hour.) This may force some people who now work onto the relief rolls.

Thirty percent of poor families live in central cities,[11] where work opportunities are declining relative to those in the ever widening rings of suburbs. Whereas the decline of agricultural employment permitted the displaced rural poor to move to the cities, the decline in urban employment does not provide parallel locational opportunities for the now urbanized poor. Even if WIN and other manpower programs were successful, and even if sustained economic growth produced more jobs, a locational imbalance would still persist. Central cities, by their nature, accommodated both affluent and poor; suburban developments do not. At the same time, suburbs provide a rich pool of secondary labor, in the form of housewives who possess the characteristics that employers prefer and who can afford to bear relatively high work costs and low wages. Such workers inevitably win in the competition for jobs in the non-poverty sector of the labor market.

The "solution" that shapes up through the interplay of market forces and zoning restrictions is the creation of ghettos in older suburbs and of other pockets of poverty in suburban metropolitan areas.[12] These provide some labor pool to service the demand for low wage and sporadic labor. This "solution," however, perpetuates the problems of poverty and welfare. It need hardly be said that any major social effort to relocate the poverty population so as to distribute them into areas of economic growth is not even a topic for serious discussion. The social judgment that the welfare-dependent poor should work conflicts with the social judgment that it is all right to exclude them geographically from labor markets in which work might be available, and from environments and school systems which might improve the human capital endowments of their children. The consequence of the conflict is frustration and the development of future problems.

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[11] Census P-60, Table D.

[12] The relative number of poor families in metropolitan areas outside of central cities rose from 16.7% in 1959 to 20.5% in 1970 (Census, P-60, Table D).

Child Care[13]

The social decision to increase the labor force participation rate of welfare mothers presents problems of child care which only now are beginning to be examined.

Most American working mothers arrange to have their children cared for in their own homes or in someone else's, and do not make any payments for the service. Only about 10 percent of pre-school children are in day care centers, and 1/3 of these children are black. The disproportionate use of day care by black mothers reflects more than their higher labor force participation; presumably, they are heavier users of day care because (1) they are less likely than their white counterparts to have satisfactory alternatives available, and (2) because the supply of subsidized day care to the poor has been rising. Even so, most poor mothers do not use formal day care. One reason is that they find the price of day care so high as to absorb a significant proportion of their earnings.

Any program of welfare reform that compels work must, of necessity, make some provision for day care. Given the low potential earnings of the mothers, day care must be subsidized. Typical charges for proprietary day care centers in 1970 were from $15 to $20 per week per child, and the quality of the service ranged from poor (50%) to fair (35%).[14] The service, it must be noted, is custodial. The cost of providing full day care in a center with an educational curriculum and moderate medical and other developmental services is about $2,000 per year per child, or $40 per week, a price far too high for most working mothers, poor or non-poor. For mothers with two or more children, the costs of public day care are great enough to cancel any short-run savings to the taxpayers. Generally, this is true even for purely custodial day care of low quality. Accordingly, we have to examine the reasons for substituting work for welfare since financial savings do not appear to be forthcoming from this approach.

Work, with subsidized day care, may be politically popular for the following reasons: (1) resentment of leisured welfare mothers by working families so that the higher cost of the work-welfare combination may be worthwhile to them as taxpayers, (2) the expectation

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[13] The data in this section are taken from Schultze, pp. 252-290.

[14] The survey cited by Schultze, pp. 265-267, found that non-profit centers tended to give better service for prices that are a little lower. Family day care centers--a family that takes in one or two children besides its own--charge only a little less than proprietaries.

that the work requirement, like the workhouse of old, will reduce the size of the welfare rolls, or at least inhibit their growth,[15] i.e., that actual financial savings may be made, even in the short run; (3) the expectation that the additional cost of the work-welfare combination is an investment in human capital that will reduce future claims: (a) work is seen to be habit-forming and a learning experience, and (b) children from working homes will learn to prefer work to welfare; (4) the calculation that the incremental cost of the work-welfare combination is justified by the value of the additional output of services rendered.[16] To put it another way, people may feel that if they are going to pay welfare anyway, they may as well pay a little more and get some services for it.

The above reasons are economically "rational." We may add a fifth, which is symbolic rather than real. If day care costs are carried on a budget with a different label from welfare costs, then a "must-work" policy will, indeed, reduce costs labeled as welfare (Solution #5). The importance of such symbolism should never be underestimated.

Finally, a policy that compels work has some redistributive ramifications in addition to the economic, symbolic, or emotional succor that it offers to taxpayers. Employers in low wage labor markets incur the benefits of direct or indirect subsidies from federal work programs. Also, federal financing of day care, as well as training and other work costs, shifts a greater proportion of the total cost of the income maintenance package from the hard-pressed states (and localities, where applicable) to the federal government, and thus also to a somewhat more progressive tax base.

II
The Welfare System: Characteristics And Directions For Reform

Background

The present welfare system has its origins in the English Poor Law of the seventeenth and eighteenth centuries. The English practice was to place upon localities the responsibility for succoring the

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[15] This assumes a degree of choice by welfare recipients, and thus presupposes the existence of alternative means of support. For the microeconomics of the work requirement, see Albin and Stein, 1968.

[16] If welfare programs are treated as a kind of social overhead cost which would be paid in any event, then such a calculation may not at all be unrealistic unless the impact on adjacent low-wage labor markets is great enough to force non-welfare workers into welfare. In the latter case, redistributive costs rise without a corresponding rise in output.

deserving poor among them, and that practice was carried to America by the early settlers.[17] Essentially, it translated the institutionalized private charity of the church into means-tested public charity. Originally developed for an agricultural society with a limited amount of geographic mobility, the poor law and the practice adapted themselves over time to an urban, industrial society with a mobile population. By and large, the system tended to exclude the able-bodied, who were presumed to make do on the labor market, and focused upon the aged, disabled, and widows caring for children.

The tendency of localities to vary their practices, usually with the intent of avoiding the cost of poor relief, led to the development of state laws that provided guidelines or mandated local behavior, and sometimes provided state aid.[18] These state systems institutionalized welfare practices that had arisen from the need to deal with large numbers by establishing categories of needy. The three categories that became general by the 1920's (that's half a century ago!) were Mothers' Aid (or Pensions), Old Age Pensions, and Aid to the Blind.[19] General Assistance was usually a matter of local option. When the Great Depression brought the federal government into the picture, it built upon the existing system. Today's categories are basically the same. Aid to Families with Dependent Children (AFDC) is Mothers' Aid; Old Age Assistance (OAA) is Old Age Pensions. We still have Aid to the Blind (AB), and we have added Aid to the Permanently and Totally Disabled (APTD).

The noteworthy reform that the Social Security Act contributed to American income maintenance was social insurance. The various programs of the Act were intended as supplements to savings when wage income ceased for specified reasons. With the exception of unemployment compensation, the Social Security categories have been parallel to the traditional welfare categories.[20] The crucial difference lies in eligibility for benefits, in the size of the benefits, and in financing the system.

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[17] For a short analytical history of welfare, see Stein, pp. 42-74. But c.f. Piven and Cloward, pp. 3-119.

[18] The device of using state law to mandate local government activities is employed for a variety of public activity. Education is another example where the practice has become dysfunctional.

[19] These were categories for outdoor relief. Indoor relief, by the 1920's, was largely confined to the very aged, orphans, the chronically disabled, and insane indigents.

[20] To a certain extent, the Unemployed Parent provision of AFDC parallels Unemployment Insurance.

The test for eligibility is two-fold: does the applicant fit into the category (i.e., aged, blind, or a widow caring for minor children); has the individual or head of household made the minimum requisite financial contribution by having worked in covered employment for a statutory period of time. The amount of benefit is determined by a formula that ostensibly links it to the amount of the contribution, although minima, maxima, and "blanketing in" of uncovered groups make the link somewhat tenuous. The method of financing is by payroll taxes that are essentially regressive, but give the appearance of being insurance premiums.[21] This has the two-fold political advantage of making benefits a matter of right, while avoiding the income redistribution that would have come if the financing were progressive. Although the system does redistribute income among Social Security taxpayers and beneficiaries, it emphatically does not soak the rich.

In contrast, the welfare provisions of the Social Security Act were intended to be transitory and residual, and not a fundamental restructuring of income maintenance. To the framers of the Act, Old Age Assistance was needed to complement Old Age Insurance until the rise in OAI coverage was sufficient to phase out OAA. It must be remembered that the aged were exercising political clout at the time. Aid to the Blind and Aid to Dependent Children were passed as much to give relief to states and localities as to give it to these categories of the poor.

For the purpose of this analysis, I shall discuss three major characteristics that shape the welfare system: the present categories, the use of the means test, and the federal-state-local mix of financing and administration.

The Categories

The parallels between the categories in social insurance and those of public assistance show that the intent of the framers of the Social Security Act, and their successors, was to use welfare as a net under the social insurance net--one that would decline in magnitude with the passage of time. The enactment of Survivors' Insurance in 1940 was expected to reduce AFDC caseloads as more and more workers became covered, and Disability Insurance was expected to do likewise

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[21] Most authorities agree that the system is not insurance, notwithstanding the rigamarole of the Trust Funds, etc. See Pechman, 173 ff.

for AB and APTD. The federal government's entry into the welfare business had been reluctant, to say the least (in contrast to its entry into the work relief business as an anti-unemployment measure); Social Security would minimize even its indirect role. As for the net under the net under the net, the problems of those individuals whose needs did not come directly from age, disability, or the loss of a male breadwinner in a household with children, were matters for states and localities, if they so chose.

A close look shows that the system was confined to a restricted list of risks that all of us face in the lottery of life. It was emphatically not intended to cope with the permanent sort of poverty that afflicts various groups in our society. The classic welfare categories do not define poverty. Instead they define a partial set of reasons why an individual might not be able to participate in the labor force.

Nevertheless, welfare has become the primary anti-poverty expenditure in the United States. The proportion of the poverty population that receives welfare increased from 17.8 percent in 1960 to 54.8 percent in 1970.[22] Half of this increase is accounted for by the decline in the size of the poverty population that took place during the economic growth years of the 1960s, with the balance coming from both the planned and unplanned expansion of the system. The proportion would have been even larger if it were not for the expansion in Social Security.

Welfare was never intended to be a major measure of support for the poverty population. The agricultural revolution of the past decades drove the rural poor off the land and into the cities. But technology was also changing in the non-farm sector. Those who by cultural background and education were least able to adapt to the changing industrial labor market--and who, in many instances, faced barriers of racial discrimination in location, labor markets, etc.--had little alternative but to turn to welfare. And so they did. Since the only category that provides funds for able-bodied adults is AFDC,[23] it responded accordingly.

This can be seen in the data. In 1971, no less than 52.2 percent of welfare mothers were living outside the state of their birth. If we look at the five states that account for half of the

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[22] Computed from data in Social Security Bulletin and Census P-60.

[23] Apart from some of the more generous GA programs in a few states and localities.

nation's welfare outlays, we find that migrants constituted 2/3 of the caseload in three of them, and 1/3 of the caseload in the other two. A glance at Table I also shows that Puerto Rico and the South were major sources of people likely to become welfare recipients (Solution 3a: export your poor).

The welfare system, as codified by the Social Security Act, was not designed for major economic and demographic dislocations. Its clients were supposed to be a fraction of the poor, those poor who were not covered by Social Security and who were barred from the labor market by reason of age, disability, and single motherhood--and for no other reason! Its growth was inhibited by the opportunities in rural areas for poor families to earn a subsistence income on the soil, opportunities that do not exist in the city. It was further inhibited by the greater ability of welfare officials in small communities to restrict access to welfare and to compel work at well below minimum wages.[24]

These conditions have changed, but welfare still operates as if the categorical reasons for cessation of income are causes of poverty that occasionally strike some individuals and then make them eligible for public charity. The struggle by welfare officials and their critics to curb the growth of welfare by enforcing the categorical reasons and excluding ineligibles is heroic, at times. And since the system's administrative mechanisms were designed to process relatively small numbers of people with individual problems, its response to rapid growth has resulted in deplorable levels of administrative incompetence (Porter).

One concludes that the categories are worse than wrong; they are irrelevant to the problems at hand. Accordingly, the direction of reform lies in eligibility rules that bear some close relationship to the causes of poverty and the characteristics and needs of poor people.

The Means Test

Welfare has traditionally been a means-tested system of income transfer, in contrast to the more universal systems that have been proposed as replacements. The means test, despite its attendant disadvantages of inefficiency, arbitrary and capricious treatment of clients, and so forth, can be used to focus available funds on areas

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[24]The point is forcefully made by Piven and Cloward, pp. 200-221.

Table I

Percent Distribution of Birthplace of AFDC Mothers in Five States with 50 Percent of U.S. Welfare Expenditures, 1971.

	In Same State	In South	All Other	Unknown
California	32.5	36.0	26.1	5.4
New York	34.1	28.1	34.7[a]	3.1
Pennsylvania	62.8	19.4	8.7	9.1
Illinois	36.7	46.4	14.9	2.0
Massachusetts	63.3	14.5	18.2	4.0

[a]of which 25.4 percent were born in Puerto Rico.

Source: U.S. Dept. of Health, Education and Welfare, NCSS Report AFDC-1 (71), "Findings of the 1971 AFDC Study, Part I," December 22, 1971, Table 28.

of greatest need as socially defined. By their nature, universal systems must disburse funds over a far wider segment of the population. Hence this dilemma: they either do not replace welfare, merely supplementing it (as is the case with President Nixon's Family Assistance Plan) or they involve such large sums as to be politically unpalatable at the present time. This is true even though universal plans can be indirectly means-tested by subjecting them to negative and positive income tax mechanisms.

The Federal-State-Local Mix

A characteristic of welfare that gives least promise for the future is localism. The role of states and localities dates back to the ancient tradition that relief of the poor, like police, fire, and education, is a local issue. Financial and administrative responsibility was shifting upward to the state level fifty years ago when the Social Security Act added the federal layer. The migration and urbanization of the poor have concentrated poverty and welfare in a relatively small number of places, to the indignation of the public at the receiving end. On the other hand, the exporting states and localities have tacitly or actively encouraged the migration by retaining low benefits and harsh administration.

This two-tier (or three-tier) system of federal-state (or federal-state-local) responsibility manages to achieve the worst of all possible worlds. The importing states and localities, taught that their responsibility is to their own poor (with a bit of help from above), are helpless in the face of the migration, with its rising welfare cost to them. Residence requirements for AFDC were never very effective in stemming the flood. High benefits and relatively humane administration in some of the states only succeeded in attracting more people and encouraging still wider resort to welfare. Once the migrating poor were in the northern and western states, these states (and localities) found that they had lost the advantage of local control while retaining some of the disadvantage of local financing.

The financial burden is somewhat exaggerated, of course. For the nation as a whole, it amounts to 4.78 percent of all government expenditures.[25]

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[25] Computed from data on all government expenditures in Statistical Abstracts and welfare expenditures in Social Security Bulletin. The figure is for 1971.

More to the point, public welfare expenditures by states and localities out of their own funds have been stable for the last decade at five and a fraction percent, down from a peak of 8.79 percent in 1950.[26] For the importing areas, of course, the financial burden is disproportionate. In New York City, for example, about 10 percent of local taxes go to welfare.

Since welfare is perceived by the public as a state/local expenditure, it is seen as competing for funds with education, police, and other urgent local needs that are being financed out of rising (and somewhat regressive) state and local taxes.

The indicated direction for reform is federalization to spread costs more evenly and to make benefits and administration more uniform. The latter is needed to reduce the pushes and pulls that varying benefits and practices exert on the flow of migrants. It would have been even more useful ten years ago.

Cash and Kind

Recent years have seen an upsurge of interest in transfer payments that are made in kind rather than in cash. Historically, such payments have developed a reputation, usually well-deserved, for meanness. The commissary, the soup kitchen, the surplus commodities of lard and peanut butter, the poorhouse, all provoke Dickensian images. In his outstanding work, The State of Welfare, Gilbert Steiner refers to "the most crude techniques of all . . . those that completely bypass money, eliminate recipient discretion, and meet need by making direct gifts of surplus food or of shelter. . . or of such items as new shoes or lunches for school children." (p. 3)

As a general proposition, transfers in kind do not allow recipients the freedom of choice that they obtain from cash. Accordingly, there are only two basic reasons why transfers in kind might be favored over cash: (1) because taxpayers want to impose their own consumer preferences on recipients, and (2) because the item in question is provided more cheaply in kind than in cash.

The first of these reasons is rarely a good one. Forcing people to conform to other standards by restricting their choices rarely works and merely leaves everyone dissatisfied. In concrete terms, the taxpayers who want to make sure that their money really goes for

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[26] Computed by taking state/local public welfare expenditures minus the federal contribution to welfare and dividing by all state/local expenditures minus federal intergovernmental revenues to states. Data in Statistical Abstracts and in Census GF-71.

food, and not for booze, by providing food packets or food stamps, are kidding themselves, since resale markets will develop through informal exchanges between boozers and teetotalers. I am told that food stamps are readily purchased and sold in poor neighborhoods in New York, at competitive discount prices.[27]

Many transfers in kind are more costly than transfers in cash. Almost invariably, they require separate administrative mechanisms. Food stamps are a case in point. An enormous amount of effort is devoted to their distribution, handling, and clearing. The program, which now is budgeted at $2.5 billion, has its own set of bureaucracies at two levels of government, requires cooperation between agencies with totally different interests and expertise, and converts grocery clerks into enforcement agents to make sure that stamps are not used for beer or soap. And yet, the programs do nothing for the distribution of food that cannot be done more cheaply and efficiently by cash.[28]

It is noteworthy that food stamps are carried on the budget of the Department of Agriculture. This means that the usual data on welfare expenditures understate the system's benefits, which suggests that food stamps belong to the class of Solution #4: calling it something else.

There is, however, a class of services in which some economies might be achievable by transfers in kind. Gains can be made if the supply of such services is relatively inelastic, and if government is a more efficient supplier or distributor or can use its market power to regulate prices without diminishing supply.

An example can be found in health services. Direct provision, in the form of city hospitals, etc., is highly inefficient. In New York, for example, public hospitals have been a disaster, not merely in terms of poor quality but also in terms of high costs. On the other hand, the much-maligned Medicaid program can best be understood as a government-provided form of health insurance which can achieve some savings through the economies of group insurance that come from

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[27] For the welfare economic theory of transfers in kind, see Daly and Giertz. Their conclusions, that transfers in kind may be Pareto-optimal if the preferences of givers are considered are, in effect, a mathematical proof that beggars cannot be choosers.

[28] For an excellent analysis of food stamps, see Steiner, pp. 191-236.

a pooling of risks and from the power to fix prices. Quite possibly, the same thing can be accomplished by subsidizing carriers of private medical insurance, but this presents the politically delicate problem of revealing how great such insurance costs actually are per person, and invites demands from the near-poor and non-poor for some of the same.

The problem in areas like health, housing, etc., stems from the supply side (including spatial distribution of available supply), and cannot be solved by increasing demand regardless of whether demand is expressed in cash or vouchers. This means that the major emphasis on problem-solving here lies in government plans to stimulate supply by diverting resources to these areas and by encouraging technological change.

Furthermore, health, housing, and other needs whose supply is inelastic are problems that confront all consumers. Governmental policies to increase effective supply can be coordinated with welfare policy, especially if such programs are transfers in kind among the non-poor. In such circumstances, transfers in kind to the poor can be economical, in that they need merely be extensions of existing programs.

Transfers in kind deserve deeper exploration than I can give here, because each type of service presents special problems. Housing involves race and social class issues. So does education. Generalization, therefore, should be used with great care. Suffice it to say that such transfers do not possess any special magic that will solve welfare problems.

As a final word, the present structure of transfers in kind presents difficulties for any welfare system that relies on negative tax incentives. Although the negative tax rate in H.R. 1 is ostensibly 67 percent, it can rise to over 100 percent when the value of Medicaid and public housing is included and thus destroy the entire rationale for welfare reform.[29]

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[29] This stems from the dilemma common to all negative tax systems. See Stein, pp. 80-83, and Levitan, Rein and Marwick, pp. 122-124.

III
Poverty and Welfare

Background

There are about twenty-five million people in the United States in families with incomes below the poverty threshold as defined by the Social Security Administration. Although the number of poor declined in the 1960s from 22.4 percent of the population to 12.6 percent, the profile of poverty remains distressingly familiar. Poverty is disproportionately concentrated among the aged, in female-headed families, among the remnants of the rural population, and among blacks (and other non-whites) and persons of Spanish-speaking origins. Children constitute some 33 percent of the poor. Other characteristics of the poor include relatively low levels of education among adults, low-skilled and low-paying occupations among prime age adults, and part-year and part-time jobs among the working poor (Census P-60, pp. 1-14). An astonishing 900,000 male family heads manage to work full time for 52 weeks for earnings below the poverty line, as do well over 100,000 women (Census P-60, Table G).

With the decline of the poor has come an important compositional change. Between 1959 and 1970, the number of poor whites fell by 38.6 percent; for non-whites, the drop was 26.9 percent. However, the change in poor female-headed families was upward rather than downward. The period saw a 45 percent increase in the number of poor people in white female-headed households, and an 88 percent rise in the corresponding figure for non-white households.[30]

The reasons for this change are somewhat obscure. I am of the opinion that, for blacks and other minorities, causation can be traced to a dynamic interaction of social and economic changes coming from the sharp rise in agricultural productivity in recent decades, with its resultant migration to the cities, at a time when the non-agricultural sector was undergoing parallel structural changes. But this is an opinion, and not a statement of fact.[31]

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[30] Computed from Census P-60, Table K.

[31] Illegitimacy, which accounts for 31% of AFDC children (NCSS AFDC-1, p. 4) has been rising steadily for whites. For blacks, the illegitimacy rate peaked out in the mid-sixties except, unfortunately, in the 15-19 age group (Census P-23, Table 94).

We see here a partial explanation for the simultaneous decline in poverty and rise in welfare recipients. The poor constitute the pool from among which welfare recipients are drawn. Since female-headed families among them are a highly relief-sensitive segment of this pool, by virtue of eligibility rules, it follows that an increase in poverty among this group will tend to increase the number of relief recipients.

The Policy Options

This exercise in statistics suggests that approaches to the problem of excessive welfare dependency lie in the following directions: (1) reducing relief sensitivity by restricting eligibility and payments, i.e., Solutions #1 and #2; (2) transferring sufficient income to relief sensitive groups so that they are no longer poor, that is, some variant of Solutions #3 and #4; and (3) taking steps to reduce the degree to which potentially relief-sensitive segments of the population are prone to poverty.

Solutions #1 and #2 bear little comment. Steps to reduce benefits and the number of welfare recipients are politically popular; the puzzled and angry taxpayers will support programs to end chiseling, although it is really unlikely that chiseling accounts for very much of the rise in recipients. The principal drawback of the hard-nosed approach is that it does not deal with the underlying problem, and does not for long relieve the pressures on welfare budgets. As a result, it converts the welfare process into a long and inconclusive battle between the taxpayers and the welfare poor. It does not even purchase the social peace which is its function, according to Piven and Cloward.

Solutions #3 and #4 encompass a range of proposals that transfer income from the federal budget to the poor and near-poor, and thus contribute at least part of the funds needed to bring the poor out of poverty. Proposals of this type, when aimed at the non-aged and non-disabled, usually contain incentives and compulsions for work. But spending the poor out of poverty turns out to cost a lot of money, because both the negative tax incentives and the question of equity require that benefits go to people who are not presently among the welfare poor. Indeed, the more effective the plan, the greater its impact must be on the distribution of income. Also, plans of this type do not do anything to end intergenerational poverty, although they may make it more bearable.

It must be remembered that the poverty line definition of poverty is only a handy short-cut measure. People are poor in relation to other people (Stein, pp. 5-14). In the unlikely event that we adopted a program to guarantee, say, an income of $4,000 to every family of four, the beneficiaries would still be poor in a nation where median family income is $10,285.

In short, an effective and sensible national welfare policy must be more than an income maintenance policy. It must do more than merely provide work and training, although work and training can certainly be useful. It must address itself to the barriers that prevent an identifiable segment of the population from gaining access to socially desirable means of support. It must lead toward a situation in which poor people, not merely welfare mothers, can compete for real jobs that pay real wages.

The suggestion I make is not utopian. In the long run, it is the only practical way out of the present mess. It consists of putting together a package whose components, while familiar enough, must be treated as a package. The broad outline of such a package would involve:

1. An adequate income maintenance system, preferably with incentives of the negative tax variety. Transfers-in-kind should be made for services like education, health, and housing, whose markets are not responsive to consumer demand.

2. A set of policies that are designed to increase the productivity of the poor. This includes education, training, and such supportive services as health and child care. Since the direct gains from additional education[32] are limited, at least in the context of existing labor market structures (Ribich, pp. 124-129), this part of the package must be viewed as a component rather than a free-standing magic solution (c.f. Thurow, pp. 61-81). Furthermore, the issue is not merely <u>more</u> education, but also <u>better</u> education. The segregated and low-quality Southern rural schools of yesteryear helped produce today's poor blacks. The ghetto schools of today's central cities which manage to turn out high-school graduates who are close to functional illiteracy will help to produce tomorrow's poor and tomorrow's welfare recipients.

3. A set of policies that improve the functioning of labor markets. This includes policies to reduce race discrimination in housing, with its malallocative spatial effects, as well as programs to reduce it directly in labor markets. It also requires an income-maintenance system whose benefits and eligibility requirements are more uniform across the country than is presently the case. Existing variations in welfare policies distort the functioning of the labor market.[33]

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[32] But c.f. Christopher Jencks, et al, as reported in the N.Y. Times, September 8, 1972. The complete study by Jencks was not available at the time this paper was submitted.

[33] Conventional wisdom asserts that people do not migrate for welfare benefits, but both common sense and orthodox economics tell us that welfare plays some role in the migrant's spectrum of expectations. The empirical evidence on the topic is inconclusive. See Albin & Stein, 1970, p. 452.

4. A set of policies that stimulate the demand for the labor resources that the poor have to offer. This requires, as a <u>necessary</u> condition, a high aggregate demand for labor. Otherwise the supply of workers with greater qualifications will overhang the market, and make education and training programs futile.[34]

I cannot stress this too much. If aggregate economic policy keeps unemployment levels at 5-6 percent in order to stabilize prices, then the same policy calls for a correlative income transfer program to take care of those who have sacrificed actual or potential jobs for the benefit of the rest of the community.

Given an overall high level of labor demand, it is possible to stimulate the demand for labor by the poor through devices such as revenue sharing, public employment programs,[35] job guarantees, wage subsidies, and so forth. There is no shortage of useful tasks that need to be done in both the public and the private sectors.

However, if the principal policy goal is merely the reduction of welfare costs, then low-wage jobs and work-relief programs are the cheapest way to effectuate the above policy. The savings are spurious, in the long run, since the low-wage job would tend to perpetuate poverty and therefore welfare dependency. Furthermore, the long-run stress on education and jobs must be on obtaining good entry-level jobs for young people, since this gives them the greatest possible chance to escape from poverty, and the greatest possible incentive to do so.

The problems that pertain to our welfare system cannot be dealt with by simply reforming the welfare system. There is no magic formula for a negative tax, or a work-relief scheme, or a way to catch chiselers, that will solve the problems. To deal with welfare requires a coordinated set of strategies that must be allowed to operate over time. It took twenty years to build our interstate highway system. It would take as long for an effective policy to reduce poverty among the able-bodied but relief-sensitive poor. It might be well worth it.

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[34] The proposition is consonant with either the queue theory of labor markets or dual labor market theory. For the first, high aggregate demand will lead employers to go further down the queue to satisfy their labor needs. For the second, the transition from secondary to primary labor markets is easier for workers who have benefited from education and training if there is excess demand in the primary labor market.

[35] High levels of unemployment will cause public employment programs to pick up workers from the non-poverty sector. See Levitan and Taggart, pp. 42-49.

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THE FAMILY ASSISTANCE PLAN -- AN AUTOPSY

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An analysis of the Family Assistance Plan can follow various routes, such as its intent, its actual fate, and its consequences. Pursuing first the issue of intent, a number of interrelated questions emerge: Are we dealing with a problem where there is general consensus on objectives, but differences as to means? Or are we discovering, as the debate on means has become sharpened, that what at first looked like agreement on objectives has turned out to be a fantasy? Was the earlier potential of a consensus primarily around the limited objective that the present welfare system is now working and in need of a major overhaul, or did it go more deeply toward greater agreement as to the cause and solution of the problem of poverty?

Existing income maintenance programs had their beginnings in the depression of the 1930s. Since that time, the programs have expanded and at the same time have been under constant attack, especially from conservative and reactionary elements who tend to regard people on welfare as indolent, immoral, and desirous of living off the society. What is different in recent years is the attack has come from all segments of the community: the consumers, the policy makers, the professionals responsible for the program, and the taxpayers. There has been growing agreement that the system is not working, and that it is in need of a basic overhaul.

A major breakthrough in the analysis of the problem was the study of the Heineman Commission. The Commission, which was appointed by President Lyndon Johnson in January, 1968, undertook a comprehensive study over a period of 22 months. This included field visits across the nation, hearings, analyses of possible causes and solutions by experts, and, finally, recommendations by the Commission. Several new principles emerged from their study:

> One principle is "that more often than not the reason for poverty is not some personal failing, but the accident of being born to the wrong parents, or the lack of opportunity to become non-poor, or some circumstance over which individuals have no control."[1]

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[1] Poverty and Plenty, The American Paradox, The Report of the Presidential Commission on Income Maintenance Programs, Washington, D.C., November 1969, p. 2.

A second principle is that "under the welfare system we have clung to the notion that employment and receipt of assistance must be mutually exclusive. This view is untenable in a world in which employable persons may have potential earnings below assistance standards."[2]

A third principle is that "the three-pronged strategy of the 1930s--employment...social insurance...and residual aid--has not eliminated poverty, and it cannot...and that there must be a larger role for cash grants in fighting poverty than we have acknowledged in the past."[3]

A fourth principle.is that any person in the society will not be permitted to fall below a minimum income each year, whether he works or not, and that the federal government will guarantee this minimum, and will finance and administer such a program.[4]

An important consideration in this basic shift in social philosophy was the membership of the Commission. It was not made up only of starry-eyed liberals or professionals with a vested interest. It included such men as Ben W. Heineman, Chairman of Northwest Industries; Thomas Watson, Chairman of IBM; James Aston, Chairman of the Republic National Bank of Dallas; D.C. Burnaham, Chairman of Westinghouse; Henry Rowen, President of the Rand Corporation; and J. Henry Smith, President of the Equitable Life Assurance Society. A new wind seemed to be blowing, bringing with it a recognition of the need to reevaluate the changing technological nature of our society and the basic rights of human beings in it.

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[2] Ibid., p. 5.

[3] Idem, p. 7.

[4] More specifically, the Heineman Commission recommended that the program be initiated at a level providing a base income of $2400 to a family of four...that the benefit levels be raised as rapidly as is practical and possible in the future...that the basic payment be reduced by 50% for each dollar of income from other sources...that federal participation in existing Public Assistance programs be terminated...that in states where current Public Assistance benefit levels exceed the proposed initial level of the federal income supplement program, those states pay supplemental benefits to those currently eligible for aid...that coverage under Unemployment Insurance programs be broadened, and benefits raised to provide more adequate protection to workers against unemployment...that manpower and training programs be consolidated and improved...and that programs of birth control information and services be expanded.

Before the report of the Heineman Commission was completed, there was a changing of the guard in Washington. President Nixon created a special post on urban problems headed by Daniel P. Moynihan. There is no question that some of the findings of the Commission rubbed off on Mr. Moynihan. He began to draw a sharp distinction between a service strategy and an income strategy in dealing with the problem of poverty. He pointed out that the premises of an income strategy are threefold.[5]

1. First, the single most powerful determinant of behavior and well-being in the society is the level and security of an individual's income.

2. Second, the most efficient role government can play with regard to the social system is that of adjusting inequalities of income--in particular insuring a minimum income for those most in need.

3. Third, the provision of adequate income makes unnecessary the elaborate secondary markets wherein the poor are required to obtain the goods and services whatever, that other persons obtain in a general market. Thus the segregation of the poor, as well as their deprivation, is avoided.

However, the legislative package, the Family Assistance Plan (H.R. 1), which finally emerged, again saw the work ethic as the overriding guiding principle.

President Nixon unveiled his Family Assistance Plan in an address to the nation in August, 1969. He called for change in four areas essential to a more comprehensive plan for getting people off welfare, putting more people to work, and protecting family life:

1. A complete overhaul of the welfare program through a new approach to income maintenance, leaning toward the principle of a guaranteed minimum level of income.

2. Greater emphasis on job training and placement.

3. Reorganization of the Office of Economic Opportunity with a major redefinition of functions.

4. Federal tax revenue sharing with the states.

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[5]Daniel P. Moynihan, "One Step We Must Take," Saturday Review (May 23, 1970), p. 21.

The legislative bill which emerged contained over 207 provisions, categorized as follows:

Title I--Provisions relating to old-age, survivors, and disability insurance

Title II--Provisions relating to Medicare, Medicaid, and maternal and child care health

Title III--Assistance for the aged, blind, and disabled

Title IV--Family programs

Title V--Miscellaneous

H.R. 1 was generally well received in the House, which reaffirmed the emphasis on work and work-incentive policies. Among the numerous programs authorized by the House in its version of H.R. 1, passed June 2, 1971, were the following:[6]

1. Increased Social Security benefits by 5 percent across the board, including adjustment each year to the changing cost of living.

2. Expanded coverage of Medicare to Social Security disability beneficiaries and disabled railroad retirement recipients.

3. Replacement of the present state-operated, federally assisted program for needy aged, blind, and disabled, by a single federal program with uniform eligibility requirements and benefit payments.

4. Replacement of the current federal-state welfare programs by a new federal Opportunities for Families program aimed at the employable poor, and a Family Assistance Plan for unemployables. Eligibility in both programs would be limited to families with children under 18 and with assets less than $1500. The program was to be initiated at a level providing a base income of $2400 to a family of four. Work requirements for an employable adult would be mandatory including a penalty of reduced family benefits by $800 for each non-excluded family member who did not register for the Opportunities for Families program or take required training or work. Benefits in both programs would vary from $800 per

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[6] Congressional Quarterly, Inc., June 17, 1972, pp. 1496-1499.

year for individuals to $3600 for a family of eight. There would be reduced benefits related to outside income except for the first $720 of the family's annual income and one-third of additional income. Participants in these programs would not be eligible for federal food stamps.

5. Manpower training, child care and other services for employables were to be expanded. $750 million per year was authorized to assist in child care expenses for low-income families.

Most of the flak centered on Title IV, which represented the fullest test of whether or not we are dealing with myth or reality in social reform. In a sense it reflected the extent to which we are prepared to face some basic and needed changes in our value system as against a pragmatic patching of outworn concepts.

What were the major concerns about Title IV? First, it did not provide for uniform eligibility based on need. Single people and childless couples were excluded. It also separated the employable from the unemployable poor. In brief, coverage was not universal.

Second, the level of $2400 for a family of four was regarded as totally inadequate. Furthermore, there was no protection in the legislation that those now receiving a higher level of support in the more progressive states would not suffer cuts. There was also no provision for built-in increases in benefits over a specified period of time that would reflect the growing inflation and the expanding income of the top 20 percent of the population. The amount recommended was both inadequate and unrelated to the total structure of income distribution in the nation.

Third, although the legislation implied a guarantee of income as a right, it built in a series of social controls that tended to make it punitive and again viewed the poor as guided by a different set of values than the population in general. The rights of the participants were not adequately protected. In fact, the suggested administrative procedures surrounding the obligation to work without choice flew in the face of our traditional concepts surrounding the rights and dignity of the individual. For example, the requirements of mothers with children six years of age and older to register for work was a threat to individual freedom. By 1974, if the legislation was enacted, this would apply to mothers with children three years of age and older.

Fourth, the legislation obliged a person to accept the job offered under the threat of serious penalties, regardless of suitability or the nature of the tasks involved. This included working at a substandard wage. The measures became even harsher when one keeps in mind the small number of welfare recipients without age, physical, and emotional handicaps, and the number of hard-core unemployables in these ranks. Furthermore, the growing rate of unemployment, now at approximately 6 percent, no longer appears to be a temporary factor, but one tied to the growing impact of automation.

Fifth, although a major objective of the legislation is strengthening family life and unity, the provisions requiring mothers to work appeared to contradict this goal. An interesting insight into the value difference for the poor is contained in President Nixon's veto of the day care legislation. He stated that this could result in our children being exposed to socialist ideas of child rearing. Yet Title IV included as a major item the setting up of day care service for the children of the poor. There are two possible interpretations of this concern, one, that the poor really don't count in our society, and the other, that it is more important to push mothers in poverty into jobs for economic reasons than it is to worry about how their children are reared.

Sixth, the lack of concern for strengthening family life was reflected by the small attention paid to supportive services in the legislation. There was the implication that with $2400 a year, a family of four could now purchase essential services such as counseling, family planning, health care, recreation, and legal aid. If the family is to function in today's complex society, these services are a necessity and not a luxury. They are needed by all groups in the society and should be made available on the basis of ability to pay, including free services for those who are unable to do so.

Finally, the administrative structure as projected in the legislation called for an expanded rather than a more simplified bureaucracy. It required two tiers of administration, one at the federal and the other at the local level. The requirements of family declarations, quarterly estimates, and redetermination of eligibility would result in greater red tape, complexity, confusion, and additonal costs than exist in the present system.

Most opponents of the legislation who were seeking real social reform were looking to the Ribicoff Amendments as a way of saving the day. In essence, they provided for a base level of $3000 for a family of four and universal coverage, with eligibility based on need. Responsibility of the federal government was more clearly articulated with a provision that it assume the total cost of the program by 1976. Protection against loss of present levels of payments in those states now providing more than the proposed $3000 was built in. State residency requirements were abolished.

Greater protection of the rights of the individual was also provided, i.e., recipients were not required to work below the minimum standard wage, mothers with pre-school children were exempted and there were options related to working regulations.

After much wrangling and delay the Senate Finance Committee, in June, 1972, completed its hearings on the Welfare-Social Security Bill (H.R.1). It differs markedly from that of the House, especially in relation to Family Programs (Title IV). Some of the major differences are as follows:[7]

1. The Senate bill would provide a general 10 percent increase in Social Security benefits.

2. The House plan to replace the current federal-state programs of aid to the needy, aged, blind, and disabled with a single federal program was abandoned.

3. The most sweeping departure from the House bill would be the removal of approximately 1.2 million persons from the welfare rolls and providing them guaranteed but low-paying government or private jobs.

The trend away from a guaranteed annual income on a universal basis to "workfare" as the central issue had already emerged with the Talmadge Amendment in December, 1971. This amendment became a national law July 1, 1972, and requires that all recipients of Aid to Families with Dependent Children (AFDC) register for work. The plan is based on the old and unsuccessful Work Incentive (WIN) Program, which has operated on a voluntary basis over the past five years and has been able to move only 65,000 welfare recipients into jobs during that time. The new program subordinates job training to searching out already existing jobs, and as an incentive for cooperation, Congress has authorized tax and cash benefits to employers who hire WIN enrollees. The Talmadge Amendment reflects the general philosophy of the Administration's reform legislation, which insists that an able-bodied welfare recipient must be willing to take a job when available. Involved in the program will be approximately 1.2 million AFDC recipients, mostly mothers; refusal to participate will result in loss of their share of AFDC payments to the family.

A similar program was authorized by the Massachusetts Legislature in October, 1971, for general relief recipients. A recent study of this program by Dr. Martin Lowenthal of the Social Welfare Regional Institute points out that "the program has at least doubled

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[7] _Ibid._, p. 1495.

the expenses for general relief, and has resulted in jobs for less than 2 percent of the 9,000 recipients."[8] Several weaknesses in the program were identified, the major ones being the lack of jobs, costs of child care, and bureaucratic costs. [9]

Pam Bush, Director of Information for Massachusetts, views their program and the Talmadge Amendment as attempts by legislators to handle the anti-welfare backlash. She states that,

> By enacting this type of legislation, the public believes Congress is cracking down on welfare. But they are both facades. They're both punitive measures to appease taxpayers that only add to administrative costs and burdens. And there are very few positive benefits to the welfare recipients either--in fact, in more cases they're merely hassled rather than rehabilitated or helped.[10]

The proposal of the Senate Finance Committee under the chairmanship of Senator Russell B. Long of Louisiana pushes the "workfare" concept even further. In fact, the ghosts of the Speenhanland Act of 1795 in England seemed to be flying over the Senate Chambers in Washington. The bill proposed by the Committee, on a vote of ten to four, reversed the principle of a guaranteed income and then a job to a guaranteed job and then the income. A report in the New York Times detailed its major ingredients.[11] Because of the tight labor market, the Committee's plan would create a new federal employment corporation whose task would be to find or create jobs. On the surface, the concept of a guaranteed job sounds positive, until one reads the fine print of requirements. The Committee estimated that there are 1.2 million employable adults--90 percent of them with children over six years of age--who should be required to find jobs in the private labor market or accept jobs from the new corporation. The cash benefits for this employable group

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[8] Robin Wright, Christian Science Monitor, Western Edition (July 3, 1972), p. 1.

[9] Ibid., pp. 1 and 7.

[10] Idem., p. 7.

[11] New York Times, April 29, 1972.

would be as follows:

1. Those working at the minimum wage of $1.60 an hour for private employers would receive $64 a week, plus $6.40 from the federal government as a rebate for Social Security taxes, or a total of $70.40 a week.

2. Those working for a private employer at a rate of $1.20 an hour--below the minimum wage--would receive $48 a week, plus a $12 subsidy from the federal government, plus a $4.80 federal rebate for Social Security taxes, or a total of $64.80 a week.

3. Those unable to find private employment would be placed in "make-work" jobs--such as cleaning work or in hospitals--paying $48 a week. There would be no additional federal subsidies for these workers. They, in effect, would be employees of the federal employment corporation, which could hire them out to private employers as maids, cooks, or yardmen if no other jobs could be found.

4. The 1.8 million other welfare mothers who do have pre-school children would continue to draw welfare payments, which vary widely from state to state.

The new proposals by the Senate Finance Committee, which will be debated in the Senate in the not too distant future, reveal a growing punitive climate for welfare reform. The increase in welfare payments by $3.2 billion this past year to a high of $17.7 billion will help to fan the flames of regression. The decision of the Administration not to seek tax reform this year will add fuel to the fire. It will take Herculean efforts to defeat the Finance Committee's plan and to replace it with the Ribicoff Amendments or to even pass the Administration plan. Senator Ribicoff attempted to introduce a compromise bill recently, bringing the payment to a family of four to $2800 as against the original $3000. Secretary Richardson, speaking for the Administration, refused the compromise and stated that the Administration is standing by its original bill, even though defeat seems a certainty.

It should be apparent that the question raised earlier of consensus as to the cause and solution of the problem of poverty does not exist. In fact, in a highly charged presidential election year the Administration is regressing to the "stick approach," sensing that this is what middle America wants. As pointed out in an editorial in the Christian Science Monitor:

> There is mounting evidence to indicate that President Nixon is beginning to have serious second thoughts about his earlier leftward ventures into welfare reform and minimum incomes for

> poor families. Instead he appears to be backing off onto safer political grounds with programs aimed at rewarding the middle-income majority as the 'builders' of the country.[12]

President Nixon made his real position crystal clear in his recent Labor Day message.[13] He stated that "A policy of income redistribution would result in many more Americans becoming poor, because it ignores a human value essential to every worker's success--the incentive of reward...." He drew a sharp distinction between the work ethic and the welfare ethic, viewing the former as emphasizing that "there is really no such thing as something for nothing and that everything valuable in life requires some striving and some sacrifice," and the latter as "suggesting that there is an easier way out, namely, attaining the good life right now through government." President Nixon brought us full circle back to Social Darwinism with the statement that "the welfare ethic breeds weak people." The workfare programs emerging from his newly stated philosophy can lead to a new form of slavery.

In retrospect, H.R. 1 was born of negative income tax as a father and begotten of traditional welfare values as a mother. Because of the fears that the father sounded too radical for the public, his identity has been kept secret by the Nixon Administration, which talked not about a guaranteed annual income, but only about putting a floor under income. Essentially, the Family Assistance Plan had as its major objective the supplementation of income for a part of the poor. Superimposed on this objective is a second objective, namely, the goal of putting more people to work and attaining this through legislative enactments which provide financial incentives to work. In a sense, H.R. 1 resulted in a bastardized piece of legislation which tried to satisfy everyone, but ended up satisfying no one. The liberals have regarded the bill as inadequate and too restrictive, while the conservatives have feared that it is so liberal it will discourage welfare recipients from seeking employment.

With the Nixon Administration moving back toward the center, the original proposals of Senator McGovern on tax reforms and a redistribution of the material income looked as if they might provide the electorate with a clear-cut choice on the future socio-economic

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[12] "A New, New Nixon?" in The Christian Science Monitor, Western Edition (Wednesday, July 19, 1972), editorial page.

[13] Los Angeles Times (Monday, September 4, 1972), Part I, pp. 1 and 6.

direction of the nation. The two extremes of these views polarize as follows:

1. The Administration view is back to the belief that economic growth by itself (an expanding GNP) will automatically maximize our social objectives. With economic growth will come jobs for all. Furthermore, since the cause of poverty is inherent in the poor themselves more than in the institutional structure, financial support without punishment or coercion to work will result in people selecting welfare as against a job.

2. The reform view places the maximization of social objectives such as equality and social justice above the concern for an expanding GNP. They see the latter as a means to an end, rather than an end in itself. For them poverty is more inherent in the institutional structure of the society than in the individual, and they do not see an expanding economy automatically resulting in jobs or bringing about redistributive justice. The reform view regards welfare as a right, as a matter of redistributive justice, rather than as a mechanism to supplement or band-aid the impact of economic growth.

An indication of the political climate and the lack of consensus on the welfare issues is the shift by Senator McGovern from his original plan of income redistribution to a program which places its primary emphasis on jobs.[14] The plan would provide higher welfare payments than the Nixon proposal--a uniform nationwide guarantee under federal responsibility and administration--amounting to $4000 a year for a family of four, consisting of $3400 in cash and $600 in food stamps; but it is not universal in coverage and is aimed primarily at broken families headed by mothers. The program would raise benefits in most states, in contrast to the Nixon program which would raise benefits primarily in the low-paying Southern states. It would repeal the existing work requirements for welfare mothers and replace them with more flexible rules. The McGovern program provides no wage supplement for a full-time working father, whether he is earning $3000 or $4000 a year. To take care of the family where there is a father, and of mothers who would like to work, McGovern proposes the creation of one million public-sector jobs at a cost of $6 billion, with heads of families given priority, particularly the 140,000 able-bodied fathers whose families are on the rolls.

To my mind, the reform view will have to prevail in the not too distant future, although its time may not have as yet fully arrived.

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[14] Vincent J. Burke, The Los Angeles Times (September 5, 1972), Part I, pp. 10-12.

Historically, there has been the tendency in periods of mounting social problems to postpone social change and to permit the problems to fester. Then come periods which are referred to as ideological revolutions because of "the tendency of postponed social changes to pile up as in a dam and to be released with a rush when the dam breaks."[15] The dam has not broken, but is taking increased spillage to prevent the pressures from reaching the bursting point, spillage in the form of cutting out pieces of the social welfare reform package for separate legislation. One example of this is the recent legislation providing for a 20 percent increase in Social Security which will help the 29 percent of those on welfare who are over age 65. Another example is passage by the Senate of a minimum pay-rise bill increasing the present minimum wage of \$1.60 an hour to \$2.20 an hour. Equally important is its extension of coverage to 8 million more workers; the House version calls for a \$2.00 minimum and no extended coverage. If we keep in mind the large number of workers who are employed for a forty-hour week at the low federal wage of \$1.60 an hour, and the approximately 10 million workers who work in jobs paying less than the minimum wage, survival of the Senate bill will be helpful to another large segment of the poverty population.

The core of the problem, however, still remains. In an economy like ours, where private investment and gain is the keystone of an expanded GNP, and, therefore, does not tend to concern itself with the public interest especially in the area of "social capital," can the necessary millions of new, adequately paid jobs be created to counter the growing welfare rolls? The question is crucial since both the plans of the Administration and of Senator McGovern are anchored to jobs as their base. They take jobs as the keystone and focus on encouraging leaving the welfare rolls through work incentives of lower tax rates, namely, the negative income tax principle. Even here, however, there is lack of agreement on the most effective level of the negative income tax. For example, H.R. 1 as passed by the House calls for a 67 percent tax rate. If, however, one adds Social Security and personal income tax, the welfare recipient can count on keeping only 14 cents for every dollar he earns above \$720.[16]

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[15] William F. Ogburn, "The Future of the New Deal," in Social Change and the New Deal (Chicago: The University of Chicago Press, April 1934), p. 115.

[16] For a full discussion of this problem, see Martin Rein, "Work Incentives and Welfare Reform," The Urban Social Change Review, Institute of Human Sciences, Boston College, Vol. 5, No. 2 (Spring, 1972), pp. 54-58.

A more adequate minimum level or income floor, a more favorable tax rate, the costs of manpower training and child care, and the costs of creating sufficient public-sector jobs may result in greater expenditure than a sound program of income redistribution.

It should be borne in mind that of the 14.8 million persons receiving welfare, 10.4 million are in families with dependent children; AFDC recipients doubled between 1957 and 1967, and doubled again between 1967 and 1971. Costs of this program rose from $2 billion in 1967 to over $6 billion in 1971.[17] We are dealing primarily with female heads of families, most of whom have low occupational status such as service workers and unskilled laborers. Their earnings when employed tend to be much lower than the median earnings of employed women in the general population.[18] The costs of upgrading the skills of these women, with an uncertain job market available and the low median wage for employed women in general, raises serious questions as to whether the increased focus on this group has motives other than solving their economic plight. The earlier objectives of AFDC as stated in 1956 were economic independence, self-help and the strengthening of family life. Until recently federal administrators placed the greatest emphasis on the latter two goals. In the growing concern for increased costs, the economic yardstick is pushing the other goals into the background. The goals of strengthening family life and self-help must not be lost in the economic shuffle. Services including educational opportunities should be provided within the context of adequate economic independence, the decision to seek employment being an individual choice, as it is for other mothers in our society.

It is difficult for middle America to perceive this group as victims of external social forces. In fact, their deeply rooted puritan attitude toward the unmarried mother in particular has become the filter through which they perceive the total problem of poverty. In their mind, the straightening out of the morals of this group through punitive legislation means that the war against poverty will have been won.

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[17]See reports of the U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, Public Assistance Statistics, Report A-2 (November, 1970), and Report A-2 (April, 1971).

[18]See U.S. Department of Health, Education, and Welfare, "Preliminary Report of Findings 1969 AFDC Study," SRS, NCSS (March, 1970), and "Findings of the 1971 AFDC," Part II, SRS, NCSS (January, 1972).

Poverty, however, cannot be solved through structural strategies alone. In an expanding technological society, even if we do a better job of preparing people to compete in the work world, there are not enough jobs to go around. In spite of our rationalizations that automation will bring new types of opportunities, we are witnessing a technological displacement of millions of workers. Any plan which does not take into account the need for progressive taxation and income redistribution toward the lower half of the wage structure as well as the creation of new jobs makes myth rather than reality of social reform. The growing failure of the war against poverty is a living example of the fallacy of tackling the problem through structural strategies as the core approach. Although in the 1960s the number in poverty had declined, by 1970 the trend had reversed itself and the number rose to 25.5 million, an increase of over 1.2 million.[19] What has been happening is that the rich are getting richer and the poor relatively poorer.

Recent studies reveal a widening gap between the rich and the poor in our nation.[20] The following analysis is based on a study of 1966-67 income tax returns after adjustment:

Families Ranked	Income Range (Dollars)	Percentage of Income Received
Lowest Fifth	3,070	3.2
Second Fifth	3,070-5,890	10.5
Middle Fifth	5,890-8,620	17.0
Fourth Fifth	8,620-12,260	23.9
Highest Fifth	12,260 & over	45.8

The report indicates that the gap of 15 times as much between the lowest and the highest fifth may be even larger now since a recession has intervened, and federal, individual, and corporate taxes have declined.

An added factor is that the most effective leveler of income, the progressive income tax, has steadily eroded and is being replaced

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19 Bureau of the Census, Current Population Reports: Consumer Income, "Poverty Increases by 1.2 Million in 1970," Series P-60, No. 77 (May 7, 1971).

20 See Joseph A. Pechman, Brookings Institute Studies; and Bureau of the Census, Current Population Reports: Consumer Income, "Income in 1969 of Families and Persons in the United States," Series P-60, No. 75 (December 14, 1970), Table 6, p. 22.

more and more by the regressive sales tax. These taxes fall most heavily on the poor in proportion to their income. The Administration is studying the value-added tax as a new source of revenue, which is regarded by many as a super sales tax. In the meantime, evidence is emerging that a considerable number of people with sizeable incomes have been paying no taxes. Their behavior is legal, but is indicative of the growing number of loopholes existing in the tax system. In fact, it has been estimated that a closing of the loopholes would provide an additional $50 billion a year, funds badly needed for dealing with our growing social ills.

It should be obvious that any plan of income redistribution should concern itself not only with the minimum level below which no individual should fall, but also with the ceiling. Poverty in any society is relative, and the building of a floor should be related to the design of the total mansion if it is to be meaningful and doable. Commenting on our present state of affairs, Gunnar Myrdal has observed that, "...there is an ugly smell rising from the basement of the stately American mansion."

Value-wise, the United States is at the crossroads. We are into the early phase of the post-industrial revolution, with its demands for a more collective and interdependent set of relationships. The solution of many of our major problems such as those of the environment, race relations, and welfare, are contingent on our ability to grasp the growing interrelationships of man's economic, social, and political life. Fuller democratization of our political system can be achieved only with fuller democratization of our economic and social systems. Concern for liberty, for example, without a similar concern for life and the pursuit of happiness has resulted frequently in one man's liberty being at the expense of another man's freedom. In a similar way, concern for economic expansion without a similar concern for fairness and equality has resulted frequently in one man's income being at the expense of another man's health and decent standard of living. Our economic demands, furthermore, have made it necessary to create life styles which are anti-social and militate against efforts of social planning. The expansion of the economy tends more and more to depend upon consumer goods which yield very few social benefits.

In a period when the search for greater meaning, greater human expression, and more satisfying interpersonal relations is everywhere around us, the ever-present goal of economic individualism will not bring the answers to the expanding problems of the environment, race relations, and welfare. A meaningful family assistance plan will come when our sense of redistributive justice is related to a social philosophy which goes beyond the pragmatic processes of our economic and political institutions and gives highest priority to people as human beings.

EMPLOYMENT AS AN ALTERNATIVE TO WELFARE

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The President of the United States delivered a Labor Day Message this year that included a sharp contrast between the "work ethic," which he praised, and the "welfare ethic," which he scorned. Last week, the Senate Finance Committee reported out to the Senate a "welfare reform" bill with work requirements so coercive that some Senators said the bill would create a form of peonage, and the *New York Times* called it a "work or starve" bill. These two developments can be taken to represent a reading by highly skilled politicians of the prevalent public attitudes on the matter of welfare and welfare recipients as of late 1972.

How we have changed in the last ten years! The mood of the 1960s was confident optimism. Listen to these words from President Kennedy's first *Economic Report* in 1962:

> A full employment economy provides opportunities for useful and satisfying work....It opens doors for the unskilled and underprivileged and closes them against want and frustration. The conquest of unemployment is not the sole end of economic policy, but it is surely an indispensable beginning.

Somewhat apologetically President Kennedy set an "interim target" of a 4 percent unemployment rate in this same Report. In 1964, Congress passed the Economic Opportunity Act, in which it declared that ". . . it is the policy of the United States to eliminate the paradox of poverty in the midst of plenty in this Nation." Let me read to you the titles of a few books on my own bookshelf that were published in the 1960s and give a further indication of the temper of the times: *Up from Poverty*; *Towards Freedom from Want*; *New Careers for the Poor*; *Having the Power, We Have the Duty*; *War on Poverty*; *The Guaranteed Income*.

Then in the mid-60s came the urban riots and the reports, studies, articles, and recommendations that flowed out of those events. There seemed to have been fairly general agreement that we had both the knowledge and the means to solve the problems that were believed to have caused the riots--and that what had been lacking was commitment.

My point is that in just a few years, public opinion generally seems to have made an about-face: We have turned from optimism and benevolence to cynicism and coercion in our anti-poverty efforts.

Why? I believe that this shift in attitudes is quite understandable, even if you don't agree with it (and I don't). The shift is the result of a superficial and erroneous but quite plausible interpretation of our national experience in the 1960s. Let me play devil's advocate for a moment to sketch for you what might be called the view from the suburbs:

"In the 1960s, we moved this nation into the longest and strongest economic boom in our history. We created millions of new jobs and cut our unemployment rate to about half of the 1961 level. We also mounted a vast manpower training effort, with dozens of separate federal programs and billions of federal dollars. Private business launched its own hiring and on-the-job training programs with government encouragement and money. We provided counseling, loans, relocation, medical care, placement, follow-up, and so on almost *ad infinitum*. And what was the outcome? As the number of people counted as poor decreased, and as the number of unemployed went down, the welfare load went up, and up, and up. So all of those new jobs, all of that training, and all of those other programs of so many kinds really didn't help--in fact, perhaps they encouraged those people to demand more and more. So our basic problem is now clear: Too many people find welfare more attractive than work. And the answer is clear, too: If they are able to work and don't, cut off their welfare checks."

I reiterate that those are not my views. I think that they rest on a superficial and erroneous interpretation of what happened in the labor market during the 1960s. Since this interpretation is accepted not only by laymen and politicians, but also by many economists, I think that it deserves close attention and analysis. The purpose of my analysis is not merely to expose error. I believe that a more realistic view of what really happened in the labor market in the 1960s is essential if we are to evolve more successful policies for the 1970s. If we misread the past, we are not likely to correct its errors.

First, let's consider how the national unemployment rate changed during the 1960s. Many analysts believe that this rate is the most important single indicator of the state of the labor market. Chart 1 shows the quarterly changes in this rate, 1960-1972. You will note that the rate reached a peak of 7 percent early in 1961, and a low of a little less than 3.5 percent in 1969. Many--perhaps most--economists attribute this dramatic decline in the unemployment rate to "economic growth"; and this growth, in turn, they attribute to the fiscal and monetary policies of the federal government during the decade. There was a great tax cut in 1964 and a smaller one in 1965. Then, after 1965, we had heavy deficit spending for Vietnam. All of this greatly stimulated the economy and the direct result, according to the prevalent view, was that

CHART 1

U.S. UNEMPLOYMENT RATE BY QUARTERS

All Workers, Age 16 and Older
1960 to Date, Seasonally Adjusted

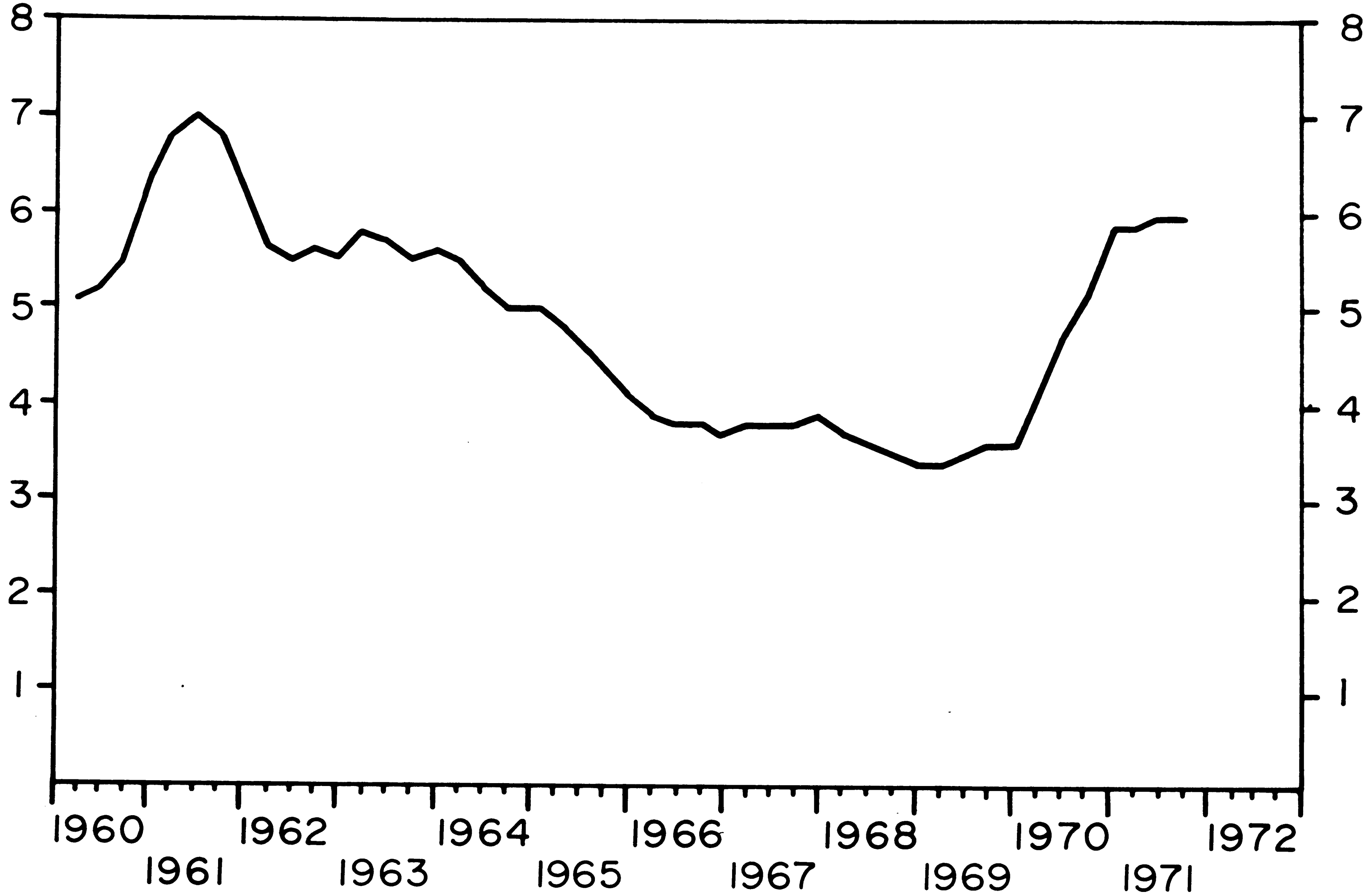


CHART 1A

U.S. UNEMPLOYMENT RATE BY QUARTERS

All Workers, Age 16 and Older
1960 to Date, Seasonally Adjusted

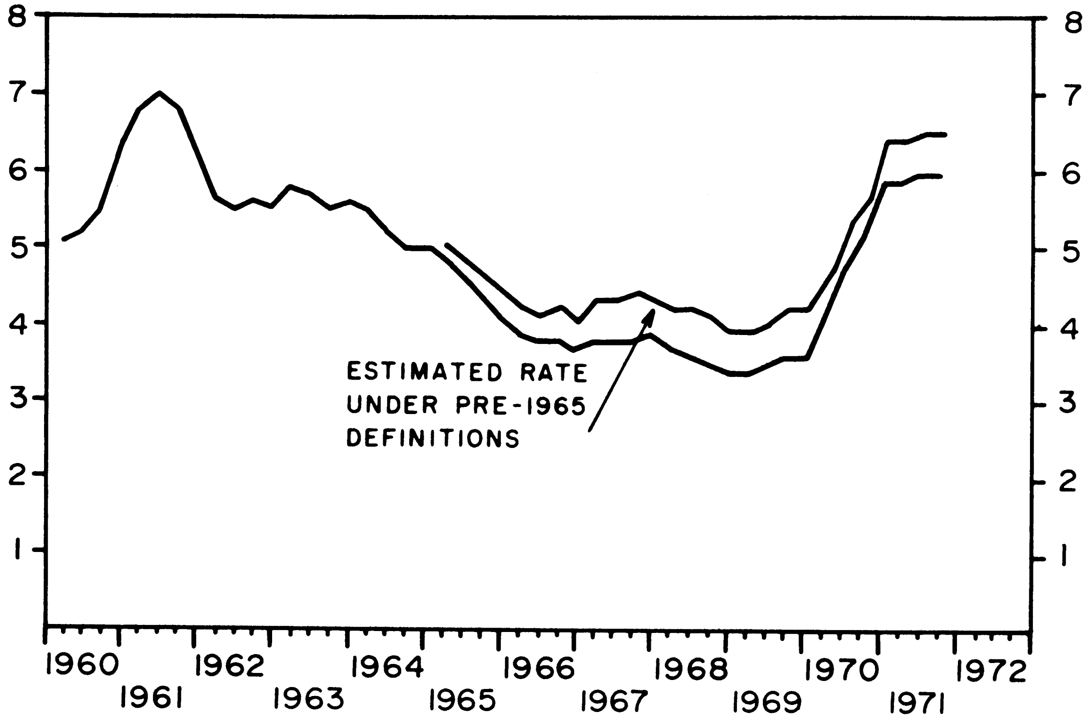
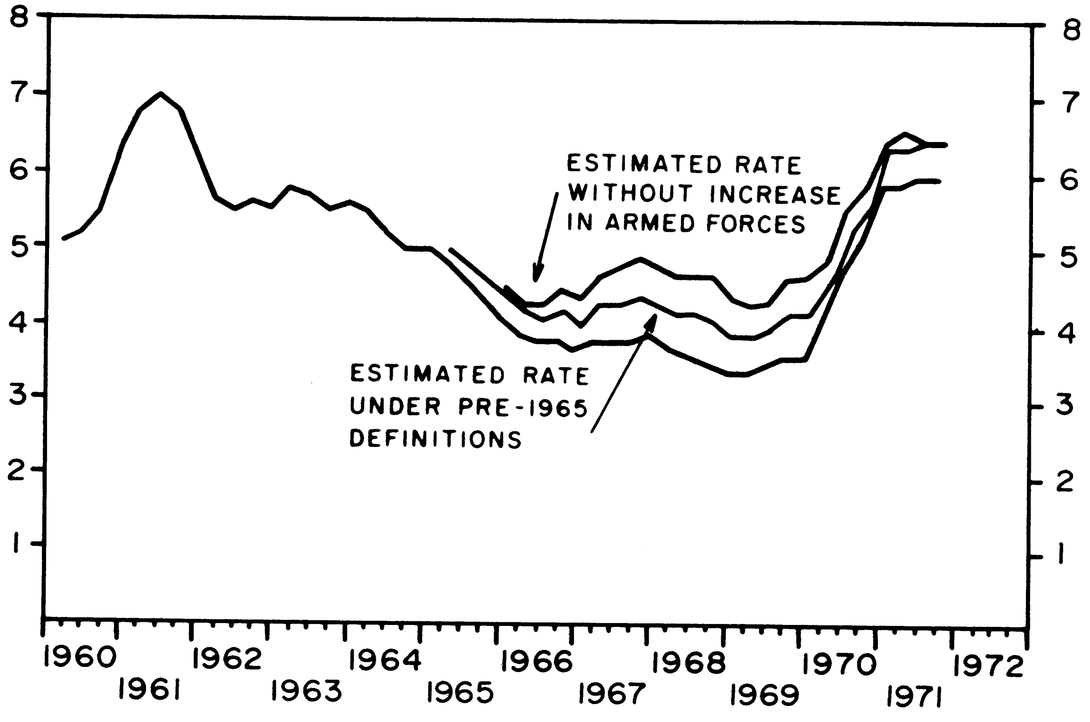


CHART 1B

U.S. UNEMPLOYMENT RATE BY QUARTERS

All Workers, Age 16 and Older
1960 to Date, Seasonally Adjusted



unemployment decreased by more than half. So the conventional wisdom now holds that we know exactly how to cure excessive unemployment--but what we don't know is how to prevent the cure from causing excessive inflation. Therefore, this conventional wisdom holds, until we find a better way we must accept more unemployment in order to have less inflation.

My view is that this is a simplistic interpretation of the experience of the 1960s, and I believe that it leads us to erroneous conclusions about employment policy and the availability of jobs for disadvantaged people, especially those on welfare. The interpretation is simplistic because it ignores some very important forces other than pure and simple economic growth that were at work in the labor market during the 1960s. Let me review the effects of these additional forces.[1] Charts 1A and 1B show the effect of two of these forces graphically.[2]

In the first place, there were two changes in the definition of unemployment during the decade, in 1965 and in 1967. The first change was to count as "employed" or "not in the labor force" the enrollees in certain manpower programs, although the enrollees in the historical counterparts of these programs had been (and still are) counted as "unemployed." By 1967, the conservatively estimated direct effect of this change was to reduce the unemployment rate by 0.5 percent below what it would have been without the definition change (and the manpower programs). Then, in January 1967, there was another definition change. Fourteen- and fifteen-year-olds were dropped from both the employment and unemployment count; the test of "seeking work" was tightened; and some other minor changes were made. The net effect of these changes was estimated by the Bureau of Labor Statistics at the time to amount

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[1] Some of the ensuing discussion is drawn from a statement entitled, "Rising Unemployment: A 'Transitional' Problem?", which I presented to the U.S. Senate Subcommittee on Employment, Manpower and Poverty in March, 1970; printed in Hearings on Manpower Development and Training Legislation, 1970, Part 3, pp. 1254-1267. This statement includes a number of footnote references to my own earlier work on the subject and to the work of others we well.

[2] The charts here are reproductions of overhead projector transparencies that were used for the presentation at the conference. The transparencies were in color, which complicates the matter of reproduction in this form; in fact, some of the charts shown at the conference are incomprehensible without color differences and are not reproduced here.

to a reduction of 0.2 percent in the reported unemployment rate.[3] Hence, the combined effect of these 1965 and 1967 definition changes was a reported unemployment rate which was 0.7 percent lower than it would have been without the changes. In other words, the reported low of 3.3 percent in early 1969 would have been about 4 percent if the pre-1965 definitions had still applied. I have often remarked that one of the great unheralded discoveries of the 1960s was that the quickest, surest, and cheapest way to reduce unemployment is to change the definition. And I can tell you from personal observation that this approach is currently getting some high-level attention in Washington.

In the second place, there was a large increase in the size of the armed forces after 1965. The amount of the increase was about 800,000. The draft policies of the time also induced a substantial increase in the number of young men who were enrolled in educational institutions as full-time, not-employed students. To some extent, these withdrawals from the labor force were offset by higher rates of entry by younger males and by females; but the net effect, by my estimates, was to reduce the size of the civilian labor force and the number of unemployed below what they otherwise would have been. I have made quarterly estimates of these effects, and the top line of Chart 1B shows the estimated net effect on the reported unemployment rate. This effect reached a maximum of about 0.5 percent; then, as we reversed the process and started discharging more men than were being inducted into the armed forces, the effect diminished, finally reaching zero in 1971.

In the third place, there was a large increase in employment which was directly related to increased Defense Department spending for the Vietnam War. At the peak, the increase was about 1.3 million jobs, almost entirely in the private sector. About two-thirds

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[3] About half of this difference (or 0.1 percent) was attributed to the elimination of 14- and 15-year-olds from the count. The BLS has revised the figures for earlier years to reflect this change; and its spokesmen sometimes insist that, if comparison is made with the revised series for earlier years, the current figures are only 0.1 percent below what they would have been without the 1967 change in definition. But I believe that it is completely accurate to say that the reported unemployment rate was decreased by 0.2 percent by the 1967 definition changes, and that if the pre-1965 definitions were still used today, the reported rate would be at least 0.7 percent higher than it is. (The BLS spokesmen do not challenge the estimate that the 1965 changes lowered the reported rate by about 0.5 percent.)

of the increase were in manufacturing, and the proportion of blue-collar jobs was much greater than in the non-defense sector. In other words, what we had was a substantial though temporary change in the structure of employment--a change which was favorable to the less-skilled workers in the labor force. The same development was quite apparent during World War II and to a lesser extent during the Korean War. The point is sometimes made that the same quantitative increase in jobs could have been achieved by an increase in government and private spending for purposes other than war; but what this overlooks is the depressing fact that the production of war goods requires a larger proportion of less-skilled, blue-collar workers than we need to provide the goods and services demanded by an affluent society which is not at war. I have not attempted to make any estimate of the contribution which this third factor made to the reduction in the national unemployment rate. I believe that its contribution was more in the direction of providing jobs for the less-skilled members of the labor force than in the direction of reducing the overall level of unemployment.

In the fourth place--and this is the end of the list--there was a large increase in hidden unemployment in the 1960s. A substantial number of people who faced chronic unemployment simply gave up and dropped out of the labor market. The dropouts were particularly numerous among older and younger men. But there were even men in the so-called prime of life who dropped out and thus joined the hidden unemployed. Chart 2 illustrates the point; it shows labor force participation rates (that is, the percentage of a given population group that is counted as "in the labor force") for men at various levels of educational attainment in the 35-44 age range at three points in time: 1950, 1962, and 1969.

In 1950 and 1962, the national unemployment rate was about the same--approximately 6 percent; but by 1969, the unemployment rate was down to about 3.5 percent, and we had had several years of great economic expansion and low unemployment levels. Many econometric studies of participation rate behavior have shown a fairly consistent inverse relationship between the unemployment rate and the participation rates of many groups in the labor force. These studies have also shown rather large differences in the sensitivity of various participation rates to changes in the unemployment rate. As you might expect, men in the age groups 35 to 44 are among the most "insensitive," and that is why Chart 2 shows the data for this group. Note what happened from 1962 to 1969. The participation rate for college graduates was already very high, but it rose even higher between 1962 and 1969. Among the less-educated, participation rates fell; and the less the education, the greater the decline, both relatively and absolutely. These disparities in participation rate changes were even greater for

CHART 2

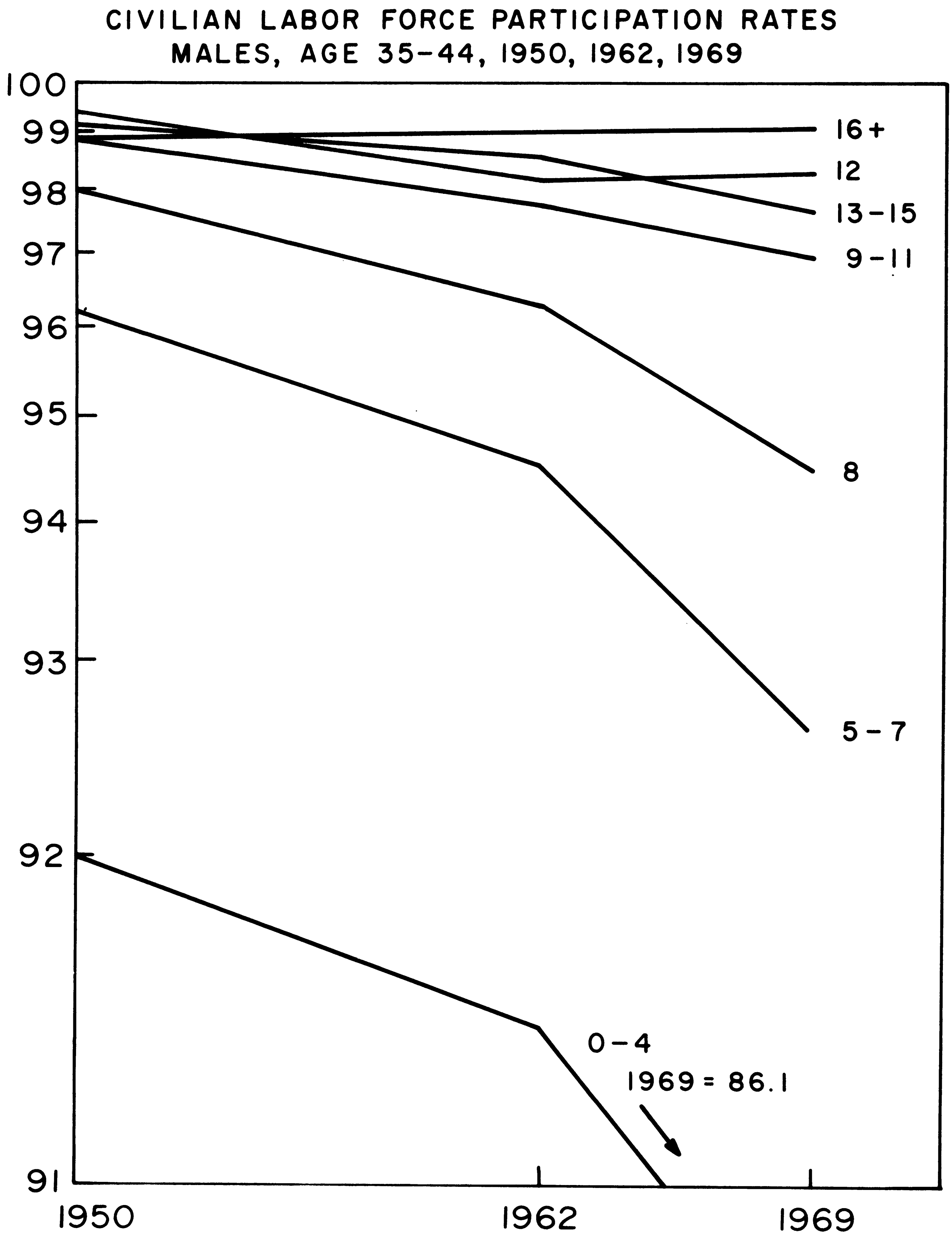
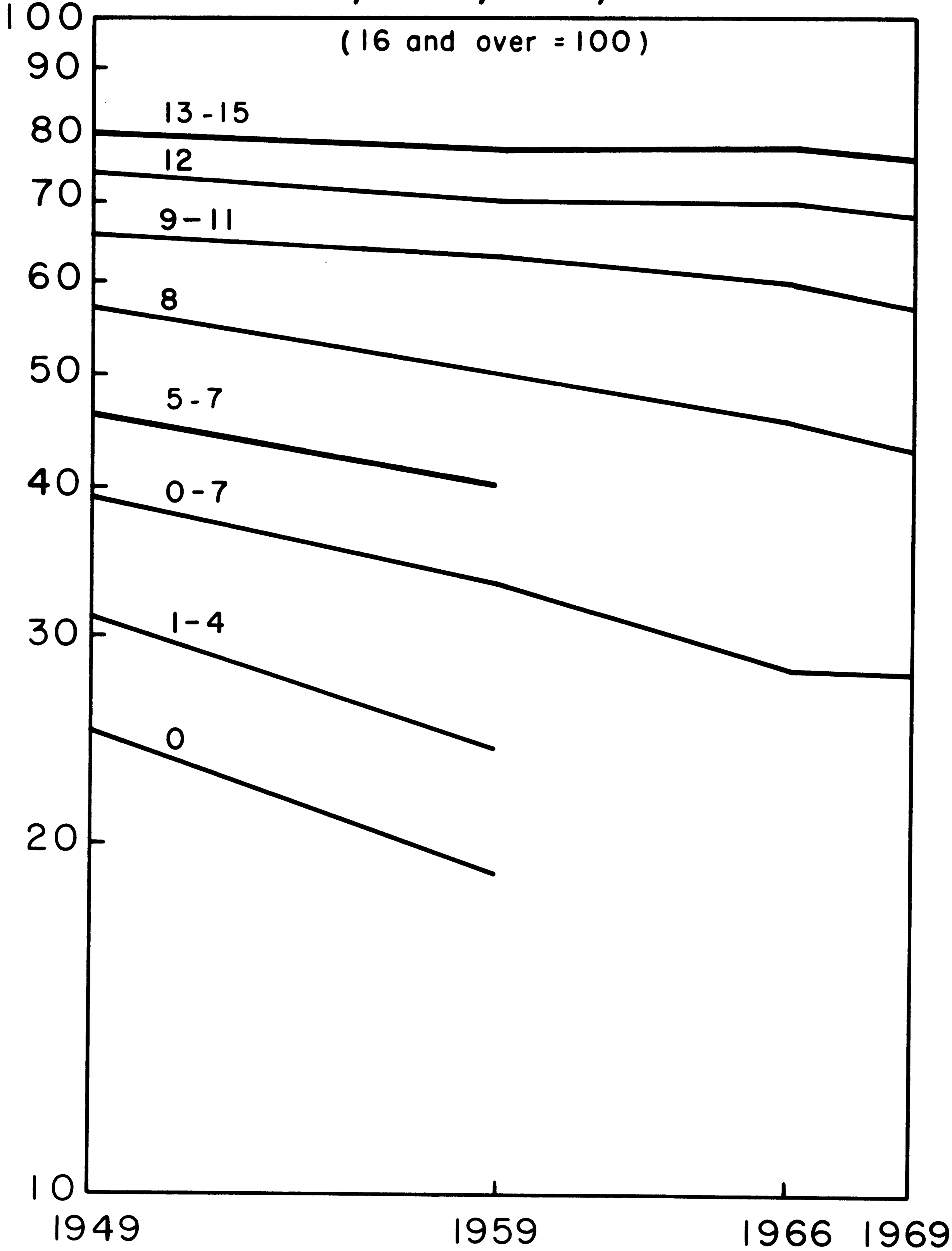

CIVILIAN LABOR FORCE PARTICIPATION RATES
MALES, AGE 35-44, 1950, 1962, 1969
100
99
98
97
96
95
94
93
92
91
1950
1962
1969
16+
12
13-15
9-11
8
5-7
0-4
1969 = 86.1

CHART 3

RELATIVE MEDIAN INCOMES, MEN 25 YEARS OF AGE AND OLDER, BY EDUCATIONAL ATTAINMENT, 1949, 1959, 1966 and 1969



older and younger men. In other words, during this time of great economic expansion, in the lower levels of the labor market the unemployment rates for men were going down because the counted unemployed were either dying or simply dropping out of the labor force and becoming hidden unemployed. They were not moving from unemployment to employment in large numbers, as is commonly assumed.

You will understand, I trust, that in the time available this afternoon I cannot set before you all of the other detailed evidence that portrays the shrinkage of job opportunities in the lower strata of the labor market during the 1960s. I will limit myself to two more points briefly stated. From 1962 to 1969, the U.S. economy generated a net increase of 10.5 million jobs for men; but this net figure conceals the significant fact that the upper two-thirds of the male labor force got 13.4 million new jobs, while the lower third lost more than 3 million. Some people have suggested that these figures reflect a process by which more-educated workers have replaced less-educated workers on unchanged jobs. If that were all that was happening in the 1960s, it would still be a tough situation for the less-educated. But I don't think that was happening to any substantial degree; if it had been, one would have to expect to see a drop in the relative earnings of the better-educated as they moved into the lower-level and lower-paid jobs. The available data on earnings, however, show that exactly the opposite was happening--there was a widening, not a narrowing, of earnings differentials. These differentials had been large to start with, and employers were raising the wages of more-educated workers more rapidly then they raised the wages of the less-educated. Chart 3 shows the relationships. I think that it is nonsense to suggest that employers generally would replace low-wage workers with high-wage workers if the jobs to be filled had not changed.

By now you may feel that I have given you more detail than you really wanted to hear. But the point that I'm making is an important one. Most economists who write or speak about the labor market of the 1960s rely upon the post hoc ergo propter hoc fallacy. They say that the experience of the 1960s proves beyond any possible doubt that "pure and simple" fiscal and monetary policy can reduce the national unemployment rate to a level close to 3 percent. I say that this is a gross and dangerously misleading overstatement of the power of fiscal and monetary policy. It imputes to fiscal and monetary policy the effects of significant definition changes, manpower programs, increased draft calls, and substantially increased defense spending. This fallacious reasoning also ignores another lesson of the 1960s, which is even more relevant to the concerns of this conference. Despite those factors I have just mentioned which were helpful to the less-skilled members of the labor force, the erosion of job opportunities in the lower levels of the labor market continued. Although reported unemployment rates in these levels dropped, it was not the result of increased employment; it was entirely attributable to death and to large numbers of labor force dropouts. Even with rapid economic growth, we still had a split-level labor market: In the lower levels we had job scarcity, discouragement, and declining relative earnings; in the upper levels we had abundant jobs, optimism, and increasing relative earnings.

When you understand how the split-level labor market really operated in the 1960s, it is much easier to understand the apparent paradox of rising welfare loads at a time when reported unemployment rates were falling and jobs were apparently abundant. I do not contend that job scarcity in the lower levels of the labor market was the <u>sole</u> cause of rising welfare loads, but I suggest that it must have been one important cause. It should now be obvious that President Kennedy was mistaken when he said that full employment "opens doors for the unskilled and underprivileged and closes them against want and frustration." Some of the unemployed of the early 1960s did have doors opened for them by economic growth, but the benefits did not reach the lower levels of the labor market. There, shrinking opportunities helped to push more people onto welfare despite general prosperity.

Obviously, most politicians, economists, and members of the general public are wholly unaware of this split-level labor market. They see only the upper level and look only at the aggregate figures on employment and unemployment which conceal the contradictory trends in the labor market. So we get attitudes, beliefs, and policy proposals which are grossly inconsistent with reality. The Secretary of Labor tells Congress, and various audiences around the country, that the best job creation program is a growing economy. The Assistant Secretary of Labor for Manpower announces yet another new approach for getting welfare clients off relief and into jobs. We are going to de-emphasize training and put major emphasis on direct referral to jobs, he says. Why? We are now creating additional jobs at the rate of about 2 1/2 million a year; so there is an abundance of opportunity. Earlier this week, here in Los Angeles, President Nixon said the following:

> Let us reject any program which makes it more profitable for a person to go on welfare than to go to work. Let us reject any program which would discourage business from providing the jobs that America needs.

I suggest you ponder that statement for what it clearly implies, as well as what it actually says. Finally, the Senate Finance Committee seems to have concluded that the basic trouble is that the poor--at least, those now on various kinds of relief programs--just don't want to work; so the answer must be coercion.

Now I want to examine some of the major programs of the 1960s that were intended to help the poor to get jobs. I hope to show how an understanding of the realities of the labor market helps us to explain why the results of these programs seem so disappointing.

First, manpower training. We really got started on this effort in 1963, and both expenditures and enrollments grew substantially until the Vietnam War brought a reordering of our federal budgetary priorities. Many studies have been undertaken to evaluate the effectiveness of various kinds of manpower training. Some programs get low scores, and a few cannot be evaluated because of the lack of reliable data. But most of the studies show favorable cost-benefit ratios--in other words, the purely pecuniary returns exceed the costs, and often by a considerable margin. One might think that these findings would support a conclusion that the programs on the whole have been reasonably successful. But there seems to be a growing feeling in Washington that manpower training has failed. The basis for this feeling, believe it or not, is the undeniable fact that we still have millions of unemployed workers and rapidly rising relief rolls.

I believe that the failure lies not in the nature of manpower training, but in the scale of the effort. At no time have we provided training slots for more than about 5 percent of those who were potentially eligible for them. Despite increasing emphasis in recent years on serving the disadvantaged with these programs, we have actually reached only a small fraction of them. The reality appears to be that these programs, by and large, have helped most of those who have gotten into them; but because of the small scale of the programs, the overall impact has been quite small.

Special programs have been devised for welfare clients, especially for AFDC recipients. The best-known, largest, and most recent effort has been the Work Incentive Program, known as WIN, which got under way in 1969.[4] I will not try even to summarize the details of this rather complex, multi-step program, beyond saying that it provided a combination of training and financial incentives to move large numbers of AFDC recipients off welfare and into jobs. By last fall, 2.7 million AFDC recipients had been "assessed," and only 24 percent of these were found to be "appropriate" for referral to WIN. Of those found appropriate, only about 60 percent were actually referred and enrolled. Of this group, only about 20 percent completed the course of training. Some 50,000 were placed in jobs after training, but only 27,000 of these

[4] Data concerning the WIN program are drawn from the recently published study by Sar A. Levitan, Martin Rein and David Marwick, Work and Welfare Go Together (Baltimore and London: Johns Hopkins University Press, 1972.)

persons remained employed after 6 months, and not all of them earned enough to move off the welfare rolls. The Department of Labor has estimated overall costs per successful placement at about $5,000. Since 2.7 million AFDC clients were "assessed," and only 27,000 got reasonably steady jobs at the end of the process, one could say that the "success" rate figures out at about 1 percent. If you consider only those found qualified for the program and who got some kind of job at the end, the success rate is still only 10 percent.

This kind of calculation seems to provide ammunition for those who proclaim that the poor just don't want to work. I would like to mention some new evidence on this point, a study by a staff member at Brookings Institution, Leonard Goodwin, which he has provocatively entitled, Do the Poor Want to Work?[5] By a happy coincidence, yesterday's Los Angeles Times carried an article by Goodwin in which he summarized his principal findings.[6] Let me quote to you his own words:

> Interviews were completed with more than 4,000 poor and nonpoor persons, including recipients of Aid to Families with Dependent Children (AFDC). These welfare recipients, mothers as well as their teen-age sons, identify work with their own self-respect as strongly as regularly employed workers. There is no more an absence of work ethic among the poor than among the middle class.
>
> Where the poor do differ from the nonpoor is that they have much less confidence in their ability to succeed in the work world and show a greater acceptance of welfare. Such findings are understandable in light of the fact that the welfare poor have failed economically and are dependent on welfare payments.

He continues with the important point that because poor people do identify their self-esteem with work, then as they continue to fail in the labor market, the effects on their self-confidence are quite negative.

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[5] Published by Brookings Institution, Washington, 1972.

[6] Leonard Goodwin, "The Work Ethic Among the Poor," Los Angeles Times, September 28, 1972, Part II, p. 7.

My own conclusion is that an approach like that of the WIN program cannot be expected to do much more than increase the frustrations and self-doubts of the poor, while creating false expectations and then erroneous conclusions among politicians and the general public. A combination of limited training and modest financial incentives simply should not be expected to move very many welfare clients into jobs that are good enough to get them off welfare. I would never argue that the job shortage I talked about earlier is the only, or even the most important, factor in this low success rate; but it is probably the most neglected factor. Thus the Department of Labor's new emphasis on direct placement with little or no training seems to be a way of achieving an inexpensive failure rather than a costly one. Finally, if I may respectfully give the devil his due, the Senate Finance Committee does seem to recognize the problem of a job shortage for the least-skilled and proposes to do something about it. I deplore the coercive and demeaning aspects of its program to create jobs for the welfare poor; but at least the Committee appears to accept the likelihood that training and monetary incentives will have little effect if our economic system simply does not generate enough jobs to provide opportunities for all of the low-skilled workers who are willing and able to work.

Let me touch briefly on one more recent program--public service employment under the Emergency Employment Act (EEA). I am among those who have supported the concept of public-service employment as an unemployment remedy for a number of years. I readily confess my disillusionment today. But I am not disillusioned with the concept--only with its current embodiment. The Emergency Employment Act was passed in 1971 after President Nixon had vetoed an earlier measure in 1970. The 1971 measure was tailored to meet some of the President's objections to the 1970 legislation. I must say in all frankness that that is one source of the weaknesses in the present program. Furthermore, the 1971 measure was written with an eye to attracting the maximum possible number of votes in Congress to minimize the possibility of another veto, and to improve the chances of overriding the veto if one occurred; what resulted was a kind of something-for-everybody approach.

My purpose here is not to offer a detailed critique of the legislation. Instead, I simply want to summarize some of the results. It is worth noting that the Administration made an all-out effort to get this new program in full operation as quickly as possible once the legislation had been signed and the money appropriated. The appropriation bill cleared Congress and was signed in August, 1971, and the first jobs were filled under this new law less than a month later. In only a few months, almost all of the jobs had been filled, and the program peaked with a total of about 170,000 jobs by mid-1972. The Administration must be given an "A" for effort in launching this program. There is another aspect of Administration initiative that deserves commendation. Some of the funds were set aside in order to conduct some imaginative experimental approaches in various communities--for example, to provide enough public-service jobs to employ a very substantial proportion of all the unemployed in the community, or to make special provisions for providing jobs to welfare clients. Unfortunately, we will have to wait several years for any significant findings from these experiments; but assuming that they were well-designed (and my initial impression is that they were), the results should provide worthwhile guidance for future efforts in public-service employment. I hope no one proposes that we wait several years for the research reports, though, before doing anything more.

In the meantime, we already have some information about the results of the overall program. The Ford Foundation funded an unusual kind of ongoing evaluation study under the general direction of Sar A. Levitan, and the study and evaluation began almost as quickly as the program itself did. The National Manpower Policy Task Force, which is participating in the study, is at work on a policy statement concerning the program which should be issued shortly after the national election. I will not try to preview the whole policy statement, but there is one crucial fact which I do want to report to you here today because I think it is highly pertinent to the subject of my talk. This fact relates to who got the jobs under the EEA. There are various ways of classifying the people who were hired, of course, but to keep things relatively simple, let me give you just one set of figures:

Educational Attainment	EEA Hires	Unemployed
0-11 yrs.	24%	44%
1 or more yrs. of college	31%	19%

I must mention also the fact that only 11 percent of those hired were on welfare, and many of those were hired, I suspect, under the special experimental projects that I mentioned a moment ago.

Please permit me to belabor the obvious for a moment. The EEA is not really a program for the disadvantaged. If we take educational attainment, or lack of it, as a measure of relative disadvantage in the labor market--and as you will have gathered I think that this is a particularly significant measure--then the disadvantaged are grossly underrepresented among those hired under the EEA, and the relatively advantaged are grossly overrepresented.[7] In other words, those who did the hiring tried to get the best-qualified of the unemployed, not those who were most in need. The EEA, it turns out, is simply a small-scale version of revenue sharing, with the only restriction being that the federal money must be spend on wages. The experience under EEA in its first year suggests rather strongly that the big 30-billion dollar revenue sharing bill that is expected to pass soon will do very little to improve opportunities at the lower levels of the labor market. To be sure, job creation for the disadvantaged was not intended to be one of the results of revenue sharing--even though some people might hope that it would be.[8]

One more comment on the EEA is needed to put it in perspective. Our last great effort in this area was in the 1930s, when we had the WPA and several other similar work-relief programs, which provided jobs for 35 to 43 percent of the unemployed. The EEA this year is providing jobs for a little more than 3 percent of those presently unemployed. Put a little differently, the work-relief programs of the 1930s employed about 7 percent of the civilian labor force; the EEA is employing about 0.2 percent of the civilian labor force. As might be expected, in many communities the applicants for EEA jobs greatly outnumbered the jobs available, sometimes by a 10 to 1 ration. In some other communities, apparently including New York City, this problem was avoided by keeping the availability of the jobs a secret until they were filled.

The main thought that I have tried to convey to you today is the growing gap between reality and a widely accepted set of beliefs about jobs and welfare. The reality is that jobs have been scarce in the lower levels of the labor market, even when reported unemployment has been quite low. And the jobs available have not been very good ones--most of them are insecure and low-paid. The men and women who inhabit those lower levels perceive that reality

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[7] I should note that "Disadvantaged" is a separate category in the statistics, and 37 percent of those hired are reported to be in this category. I think we may reasonably doubt either or both the validity of the criteria used and the accuracy of the reporting; but in any event, even by this measure nearly two-thirds of those hired were <u>not</u> disadvantaged.

[8] As this paper was being revised for publication, the General Revenue Sharing Bill was signed into law by the President on October 20, 1972. On that date, the Secretary of Labor issued a press release (USDL 72-725) in which he stated that the measure "may well generate about a half-million jobs per year over the next five years," and that these jobs would be in addition to those generated by "the current growth rate in the economy. . . ."

and behave accordingly. Most of the rest of us believe that jobs and opportunities have been abundant in the past decade, and that the behavior of welfare clients in particular is proof that they just don't want to work--either because our incentive system is badly mixed up or because the poor really are faithful to the "welfare ethic," as President Nixon is now suggesting.

My own view is that it is very risky to attempt any broad generalizations about the way or ways in which the poor would respond to a genuine abundance of opportunities for steady work at reasonable wages. It does seem safe to say that employment will never be the whole answer to the welfare problem, or even the most important part of the answer. By the same token, of course, I do not contend that job erosion in the lower levels of the labor market is the most important cause of the rapid growth of welfare rolls in the last decade. Nevertheless, I trust I have convinced at least some of you that this job erosion does have a significant bearing on some of the current controversies and proposals in the welfare field Let me offer a series of propositions that seem to me to grow out of the reality I have tried to portray here today.

> Work is not really a feasible substitute for any substantial part of welfare as of today, for the simple reason that jobs in sufficient numbers are just not available to the low-skilled, poorly educated relief clients.
>
> As long as this condition exists, efforts to provide training and incentives for work, or to coerce welfare clients to take jobs, cannot bring about any substantial increase in employment. What such approaches--without more--can increase is frustration and self-doubt among the welfare population.
>
> The creation of more jobs for the low-skilled and poorly educated must be the first step in any program to solve some part of the welfare problem through work.
>
> Stimulation of the private economy, or unrestricted grants of federal money to the states and localities, will not create jobs for the low-skilled and poorly educated in any significant numbers.
>
> An adequate job-creation program must either specify the nature of the jobs or restrict the eligibility for them to the low-skilled and poorly educated.
>
> After jobs are available, other problems will remain for many of the welfare clients--child care, incentives, training, work

attitudes, and so on. I do not underestimate these other problems; I have given them little attention here today simply because I know they are already quite familiar to most of the members of this audience.

Despite all of the evidence which shows the need for much greater vigor in our efforts to find better solutions to the multi-faceted welfare problem, I must report to you that the present atmosphere in Washington seems to me to discourage any hope that such greater vigor will develop. Some exponents of a "new" liberalism are now denying the ability of government to solve human problems. And even some past supporters of government intervention in the labor market have become disillusioned with our recent efforts, closing their eyes to the fact that the small scale of these efforts has frequently been their greatest weakness.

If the present Administration is continued in office, as the polls seem to indicate, the likelihood is that we will see a good many of the manpower programs reduced in size or eliminated altogether, instead of seeing new programs undertaken and the presently successful ones increased in magnitude. The hard problems to which these programs are directed will simply be neglected, while the country is told that we are really in good shape and that those who criticize and complain are unpatriotic.

But I do not want to conclude on a totally pessimistic note. So I will point to one small ray of hope, however feeble it may seem at the moment. Remember that the Nixon Administration denounced wage and price controls with religious fervor for years--and then, without a word of explanation, Mr. Nixon abruptly performed an about-face on this issue. On the welfare issue, Mr. Nixon would not need to reverse himself. He would need only to rediscover the merits of his own welfare proposals and to develop a willingness to compromise with those who want to make improvements in them and add the missing elements.

FINANCING WELFARE REFORM AND INCOME DISTRIBUTION

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A student of the welfare system once remarked that the system would be easy to reform except for three problems: First, no one fully understands the present system. Second, there is no consensus about what is reform. Third, we don't know how people would react if we changed the system. I would like to add a fourth problem: People don't understand how much reform costs and they are consistently misled.

The newspaper readers have been told over the past two years that President Nixon's initial welfare proposal, the Family Assistance Plan, would cost $3.8 billion; that the version of this plan passed by the House of Representatives in 1970 would cost $4.4 billion; that a second version passed in 1971, H.R. 1, would cost $5.6 billion; that Senator Long's alternative scheme reported by the Senate Finance Committee last June would cost $4.5 billion--if they read the committee's estimates--or $11 billion--if they listened to the Administration; and that a demogrant such as that proposed by Senator McGovern would cost $210 billion. The cost of welfare reform is treated like the cost of a new missile system, space exploration, or an enlarged federal payroll--as a drain on national resources, and a very large drain at that. The alleged cost of the demogrant proposal of Senator McGovern is about two and one-half times the current defense budget.

The natural reaction on confronting these numbers is confusion or panic. Why is one plan more than fifty times as costly as another? Can the nation afford the biggest, or even the smallest, of these plans? Is bankruptcy the price of welfare reform?

In my remarks, I hope to convince you that the cost estimates I have just cited are not comparable and have little meaning; that welfare reform may be costly in a different sense from that commonly discussed; and that the problem of how to keep costs down and to finance welfare reform in an equitable and efficient manner is indistinguishable from the problem of designing an equitable and efficient welfare system. I shall ignore the crucial and, perhaps, unresolvable ethical and philosophical differences that divide critics of the existing system of assistance for poor, non-aged Americans. And I shall cover some ground that will be boringly familiar to some of you, on the way, I hope, to some observations that are not.

I

First, a little basic economics. Welfare payments are transfer payments. Unlike government expenditures on missiles, civil servants, or highways, transfer payments do not directly use up real resources. They redistribute income to recipients of transfers from nonrecipients. As a first approximation, the nation as a whole has as many consumer goods at its disposal after the transfer as before. This distinction may not matter much to the taxpayer--he is out income whether his tax dollars purchased typewriters or bullets or are paid to some other person. But it does suggest that the expressions "the cost of highway construction" and "the cost of welfare" mean different things. One measures the value of resources used up by government, the other measures the value of resources transferred by government.

These basic facts of public economics suggest two ways of measuring the cost of welfare. In one sense, the cost of welfare is simply the amount of income transferred by government through the welfare system. In another sense, the cost of welfare is the amount by which it reduces real resources available for other purposes--the value of the labor and materials used up in administering the welfare system and, more importantly, the reduction in output from any curtailment of work effort due to welfare. Both of these ways of measuring the cost of welfare lead to important issues in the financing of welfare reform. Unfortunately, the cost estimates mentioned earlier are not useful for either purpose.

The amount of income redistribution caused by an increase in welfare payments seems easy enough to calculate: add up the checks to families and that's the answer. The economists among us know that that is not the <u>full</u> answer, however. If the economy is in recession, an increase in transfer payments, not matched by a rise in tax rates, will raise the incomes not only of recipients but of most other groups as well. In such a world the best way to finance welfare reform would be not to finance it at all, i.e., not to raise taxes. And even if the economy is operating at full employment, part of the cost of welfare reform may be financed by reductions in other government expenditures or by restrictive monetary policies that induce businessmen and other consumers to borrow less and spend less so that welfare recipients may consume more.

But, if we put the fiscal uses of welfare reform aside, the method of adding up checks to families is a useful guide to the amount of income redistribution. Taking this approach, the cost of President Nixon's Family Assistance Plan drops from $3.8 billion to $1.3 billion, that of H.R. 1 from $5.6 billion to $2 billion, and Senator McGovern's demogrant proposal redistributes not $210 billion but approximately $25 billion, including tax reductions for families who become transfer recipients.

The differences between the reported costs of these plans and their redistributional effects are due to a variety of causes. Some of the plans provide fiscal relief to state and local governments. Such relief may be desirable and it may redistribute income, as the incidence of federal taxes differs from that of state and local taxes; but the redistribution differs greatly from that due to changes in the welfare payment formulas. Some of the plans provide increased social services; but such services are provided often because of their therapeutic value as perceived by welfare agencies rather than by recipients. The demogrant proposal was linked to wholesale tax reform that would have reshuffled tax burdens among and within all income brackets.

What does this bewildering array of numbers mean? Four things, I think. First, the amount of income redistribution contained in the welfare reform proposals is vastly overstated by the estimates of total cost reported in the press. Second, all of the proposals would have had increased total welfare payments, although some groups might have suffered reductions. Third, the amount of income redistribution contained in these proposals varies widely. Fourth, except for the demogrant proposal, which comes pre-packaged with tax reform, all of the proposals are incomplete because they do not indicate from whom income will be redistributed, or, in other words, how they will be financed.

An increase in welfare can be financed in three ways: Congress can raise taxes, or it can curtail other government expenditures. If it does neither, the monetary authorities would probably curtail monetary growth, try to drive up real interest rates, and thereby curtail private spending. In any case, some part of increased taxes, some fraction of the reduced benefits from lower government expenditures, or some of the effects of tight money would be borne by recipients of welfare. As a result, the net benefits of increased transfer payments--in other words, the net redistribution--would be smaller than the numbers I just gave you. If income taxes were increased, for example, some part of the increase would be borne by welfare recipients who work and pay income taxes. This sum is relatively modest today, but would increase if support levels were raised and eligibility extended to the working poor. Even now, a four-person family remains eligible for AFDC payments in most states even if its income rises above $4,300 per year, the level at which federal income taxes first apply.

The problem of financing welfare reform, viewed in this light, is no different from that of financing defense, the schools, or the courts. If we choose to raise taxes, we must decide which tax is fairest, easiest to administer, and least likely to distort decisions of households and businesses in undesirable ways. The problem of financing welfare reduces to a question of tax policy. Which taxes should be imposed or raised? Whose taxes?

Were we to pursue this interpretation of the cost of welfare, I should turn to a discussion of the alternative ways to increase federal revenues--income tax reform, a value-added tax, an income tax surcharge, and so on. I could present my agenda for tax reform, wind things up, and we could have more time for the Wrap-Up Panel. Instead, there is another aspect to the problem of financing welfare that is bound up with the design of the entire program.

II

Economists are fond of talking about "real" costs. The real cost of welfare reform to a family is, of course, the reduction in that family's disposable income. The real cost of welfare reform to the nation is the reduction, if any, in real income of the nation. If reform of the welfare system causes some people to work less, real output of the nation will decline and fewer goods and services will be available to consume or invest. Even if nothing is redistributed, someone loses.

While economists worry about "real" costs, others worry about welfare slackers and cheaters. Governor Maddox complains that if the Family Assistance Plan passes, "You're not going to be able to find anyone willing to work as maids or janitors or housekeepers"; Senator Long proposes to subsidize work rather than guarantee a basic income for the working poor; Professor Killingsworth proposes work relief as an alternative to welfare; and many of us wonder, at least occasionally, about the long-term effects on work effort of a basic income guarantee available without stigma to all. Though none might like to admit it, the economist who speculates on the "real" cost of welfare reform, Governor Maddox, Senator Long, and Professor Killingsworth are all talking, at least in part, about the same thing.

Knowledge of how welfare really affects the supply of labor--in other words, about the real cost of welfare--is sadly lacking. Some of the complaints about cheaters and loafers are based on genuine abuse, but many are thinly disguised racial or economic prejudice. The Department of Health, Education, and Welfare reports that 22 percent of AFDC mothers work or are in training programs. But 42 percent of all mothers work, as do 32 percent of mothers with children under the age of six. There can be little doubt that if AFDC did not exist, many recipients not now seeking work would find jobs, often at very low wages. The resulting increase in GNP would be offset at least in part by a decline in nonmarket activities such as the care of young children. The presence of more unskilled workers would depress the general wage rate for such workers. In the long run, the present welfare system may well raise output by enabling children to stay in school, or by providing them better diets. In the short run, however, there can be little doubt that the welfare system not only redistributes income, but also has some marginal impact on output. It is reasonable to expect that any substantial increase in welfare payments would not only redistribute income, but also would impose real costs.

The important and vital question is whether these real costs would be large or small, and there is no answer today. Or, to be more precise, there are several answers. Some analysts find that an income guarantee of $2,400 (or $3,000) per year to a family of four, less one-half of earnings, would have virtually no impact on the supply of labor. Others find that the labor supply of certain groups would decline as much as 30 percent. About the only common finding is that the labor supply of women and young people is far more sensitive than that of married men (especially fathers) to the level of income support and the implicit tax rate--the rate at which benefits are reduced as earnings rise. This finding is hardly surprising, as the alternatives to wage labor--going to school or staying home--respectively are more attractive and enjoy greater social approval for young people and women than for married men. In short, the available estimates of the reduction in the supply of labor differ so widely that a policy maker looking for guidance could only be bewildered.

Experimental income maintenance programs now underway in New Jersey, Iowa, and North Carolina should give us more information about how workers behave when they face an income guarantee. The results are not yet available, but preliminary rumors and mid-term summaries from the New Jersey experiment suggest that the guarantee has had virtually no impact on work effort if the tax rate--the amount the worker loses in benefits when his earnings rise--is not more than about 50 percent, but that the supply of labor fell noticeably if tax rates got very high, say, 70 percent. The New Jersey experiment covers only families headed by a prime-age male. At the risk of being contradicted when Professor Harold Watts completes his analysis of the data from the New Jersey experiment, I shall assume that these findings hold up under close statistical scrutiny.

Such results would tell us it is important to assure that workers enjoy a significant increase in disposable income when they increase their earnings, and that if this condition is met, a liberalized welfare system would not cause a material reduction in the supply of labor by prime-age males. From pervious studies, we can conclude that it is even more important to keep marginal tax rates moderate for part-time or low-wage workers, who disproportionately are women.

Such results would underline the lessons of the debates on welfare reform over the past two years--that there is a real need to pay close attention to the work incentives built into the welfare system. The real cost, as well as the political prospects, of welfare reform may well depend on the creation of strong work incentives.

III

The welfare system that affects work incentives includes not only programs that provide cash, such as AFDC, but also programs that provide in-kind benefits related to the income of the recipient, such as food stamps, Medicaid, and housing assistance. In all of these programs an increase in income leads to a reduction in benefits that leaves the earner with only a fraction of increased earnings as disposable income. In some cases, the reduction is gradual--AFDC and some housing assistance decline gradually as income rises. In other cases, the reduction is abrupt--a family may lose all Medicaid benefits and its residual food stamp bonus at the instant it loses eligibility for public assistance, or it may be ejected from public housing if its income passes the limit for continued occupancy.

In order to increase work incentives, Congress, in 1967, required welfare agencies to reduce AFDC payments by only two-thirds of earnings over $30 per month and to reimburse recipients for work-related expenses as defined by the states; previously, most states had reduced payments dollar-for-dollar of earnings. Congress simultaneously instituted the Work Incentive Program (WIN) to train or educate employable welfare recipients and help them find jobs. No informed person expected these changes dramatically to change the labor supply of welfare recipients, as most had poor earnings prospects and many had small children. Even so, the results have been disappointing--partly because employment prospects for the unskilled, meagre at best, have been especially poor since 1969; partly because the problem of training and placing welfare recipients in jobs has been far harder than the legislators anticipated.

Paradoxically, other legislation that has liberalized in-kind assistance has undermined the efforts to build work incentives into AFDC. The extension of housing assistance and Medicaid to millions of families and the increased use of food stamps have meant that many families have become multiple beneficiaries. This development means that an increasing number of families receive more assistance than they would get if they received cash assistance only. A family of four in a high-benefit state may easily qualify for benefits worth $5,500 per year, or more. In addition, however, such a family will face the 66-2/3 percent tax rate under AFDC, a 30 percent tax rate under food stamps, a 25 percent tax rate under the most rapidly growing programs of housing assistance, Social Security payroll taxes now 5.5 percent, federal and state income taxes, and a Medicaid notch--the sudden loss of benefits when its income reaches a certain point. The result may be tax rates approaching or exceeding 100 percent. Add a dash of case-worker discretion about what constitutes reimbursable work-related expenses, and the result is a recipe for bewilderment. The welfare recipient may retain virtually nothing--or most--of what he earns, depending on the varietyof benefits he receives, where he lives, what he knows about the system, and who his case worker happens to be.

To make matters more critical, the problem of uncoordinated programs--each with its own tax rate--is certain to get worse fast. Assisted housing is spreading and the number of welfare recipients with access to it is growing. A program of assisted day care with fees based on income is under serious consideration. The amount of assistance a student may receive under a recently enacted college-scholarship program is based on income. And, of course, the extension of cash assistance to the working poor would vastly increase the number of families eligible for benefits and subject to taxes under two or more programs.

All of these programs must be organized into a coherent, integrated system if recipients are to be provided genuine work incentives. Unfortunately, these highly diverse forms of assistance were enacted for different reasons by various congressional committees; they are supported by numerous, only partly overlapping constituencies; completely separate bureaucracies administer them. The political need to bring so many and such diverse political forces and interests to consensus about a single plan makes welfare reform extraordinarily difficult. President Nixon's welfare reform proposals broke up on the political shoals without even facing up to the multiple-benefit problem.

The political obstacles to program coordination seem formidable, in part because the need for coordination is not widely recognized and because the consequences of a lack of coordination are not generally understood. Perhaps the best public statement of the problem is Senator Russell Long's criticism of H.R. 1, the welfare reform bill passed by the House of Representatives in 1971, for

> . . .sharply curtail[ing] the amount of earnings that a person can retain when he goes to work.... The administration-supported formula would reduce the overall family income by $2 for every $3 earned. In many cases, after one considers the increase in social security taxes paid, the loss of Medicaid benefits,

> and especially if the family is enjoying the benefit of subsidized public housing, the family income would be reduced by more than 100 percent of every dollar that a father or mother proceeded to earn. [1]

Senator Long, alas, was completely right. Consider a family of four, eligible not only for cash assistance of $2,400 per year under H.R. 1, but also for Medicaid, housing assistance, and supplementary state assistance of $1,200 per year, and subject to modest work-related expenses, payroll and income taxes. Such a family would face super-confiscatory tax rates as high as 130 percent, and it would have fewer resources at its disposal if family members earned $6,000 than if they earned nothing.

To fix things up, the Senate Finance Committee, under Senator Long's direction, reported out a plan to continue AFDC for families with no employable adult, but to introduce a new wage-subsidy and job-guarantee scheme for all male-headed families and female-headed families with no child under the age of six. Employable adults would receive nothing if they reject work in private employment or a job provided by the federal government. The families of an employable adult who refused work also would get no help unless they were declared eligible for AFDC. Employable adults who worked full time at three-fourths of the minimum wage would receive the maximum subsidy, $1,050 per year. The wage subsidy would not vary according to family size. As a result, a couple with, say, six children, eligible for the maximum wage subsidy, would still find itself $2,000 below the rather meagre poverty thresholds established by the Department of Health, Education, and Welfare. In addition, adults regarded as unemployable, such as mothers with pre-school children, would be given no incentive to work.

All of these problems and the administrative burden of making real a job guarantee for all adults defined as employable might be worth facing if, indeed, the Long Plan made work pay and so leave recipients with the incentive to work. Unfortunately, it fails to do so. The multiple beneficiary whose plight under H.R. 1 led Senator Long to attack the House bill does very little better under his. The family of four that faced tax rates as high as 130 percent under H.R. 1 faces rates as high as 118 percent under the Long Plan; if its earnings rise from $3,000 per year to $7,000 per year, the family gets to keep only 1 percent of the increase.

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[1] "Welfare Reform: Or Is It?," Address of Hon. Russell B. Long, Chairman, Committee on Finance, and Supporting Material, Committee on Finance, U.S. Senate, 92 Cong. 1 sess. (Aug. 6, 1971).

The replacement of most of AFDC by a system of demogrants, such as Senator McGovern popularized, does somewhat better. A demogrant system that provides $3,600 per year to a family of four and contains federal personal income taxes imposed at the rate of 33 and 1/3 percent requires that the family receiving housing assistance and Medicaid face overall tax rates that average "only" 74 percent on the first $7,000 of earnings. Whether such rates will interfere with work incentives is an open question. Keep in mind, however, that these rates would apply to millions of full-time workers, as well as to those now on welfare. Even if the impact on the labor supply of each worker is small, the aggregate effect may be substantial.

IV

If you expect me now to announce a solution to the problem I have just described, you will be disappointed. In my opinion, there is none, this side of heaven. Perhaps a description of a heavenly world in which the problem does not exist will indicate why.

In such a world the lowest wage earned by a full-time worker would be adequate to support the largest "typical" family, say, a couple with four children. Employable workers would be identified through objective characteristics over which the worker himself has had no control. Unemployment would never last longer than the period covered by unemployment insurance.

In such a world, one could provide generous cash assistance to families lacking employable members, confident that there would be no work-incentive effects. One would still have to worry about the possible inducement to employable persons to desert their families, take their wages with them, and make the remaining family members eligible for assistance, thereby increasing the family's total resources. But in such an ideal world, we may as well exclude desertion, too.

Each of the conditions is violated in fact. The minimum wage is $1.60 per hour and does not cover all jobs; a minimum wage of $2.75 per hour would be necessary to assure that a fully employed husband with four children could earn more than the official poverty threshold. Many low-wage workers who cannot find jobs are not covered by unemployment insurance. Employable workers cannot be identified objectively, certainly not by the presence or absence of pre-school children as indicated by the one-third of mothers with pre-school children who work.

The result is a dilemma. We can attempt to distinguish among the poor, tailoring specific basic guarantees and different tax rates for each group. This course invites cheating, creates adventitious incentives, and requires immense bureaucratic discretion. The alternative is to establish a unitary system for all groups (except perhaps those distinguishable by such identifiable characteristics as age or gross disability) with benefits based on income and family size. The drawback of the second approach is that total work disincentives may be greater than in the first. Which course to take is a political question with no objective answer.

Neither course is inconsistent with efforts to guarantee jobs to the poor. Indeed, the cost and administrative burden of assistance to the poor is reduced as the level of employment and earnings of potential recipients rise. We should not expect such an effort to succeed fully at any time, however, and certainly not during recession.

My own choice would be a unitary system of assistance for all of the non-aged poor without gross disability. Available evidence gives us some hope that if marginal tax rates can be kept reasonably low, especially for those workers who are most sensitive to them, the costs of a unitary system will not be prohibitive. In a forthcoming publication,[2] I have attempted to work out a unitary system that integrates cash and in-kind assistance. It consists of three elements: The first is a cash assistance program with a basic guarantee of $2,400 per year for a family of four; benefits are reduced only slightly if earnings rise because the recipient works longer hours, but more sharply if earnings rise due to increased wage rates. The second element is a housing allowance plan with assistance based on housing expenditure as well as income. The third is a rather complex medical insurance plan developed by Professor Martin Feldstein and two associates.

The result is a system that provides benefits worth $3,365 to a family of four with no income. A low-wage worker retains more than half of full-time earnings; the tax rate, after payroll taxes and work-related expenses are deducted and the various benefits are reduced, is below 50 percent. The price of these virtues is a tax rate of over 70 percent on increases in earnings due to increases in hourly wages or to overtime work.

In closing I would like to acknowledge that I have strayed rather widely from the subject with which I began--the financing of welfare reform and income redistribution. I have done so intentionally. Issues in the design of a satisfactory tax system to finance welfare and other government expenditures boil down to two: (1) How much should each family or business pay in taxes; and (2) what fraction of any change in income should each family pay in taxes. The issues in the design of welfare reform on which I have focused are the same: (1) How much should each poor family receive in transfers; and (2) how much should these transfers be reduced or taxed as earnings increase.

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[2] Why Is Welfare So Hard To Reform?, The Brookings Institution, forthcoming.