TYPES OF INCOME MAINTENANCE PROGRAMS

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THE CORE ISSUE: INCOME DISTRIBUTION

Whatever the current array of alternatives, each one seeks to affect the core issue—the relative distribution of income. The 1969 poverty threshold for a four-person family was $3,720, and 24 million persons lived on incomes below their poverty threshold.

What pattern of income distribution should exist is, of course, as subjective a matter as determining the poverty threshold. But as we come to understand that poverty is normally imposed upon people by forces beyond their control, we seek ways to provide a minimum income. Consequently, current welfare alternatives focus on income maintenance as we seek to mold an acceptable policy to serve as successor to existing welfare policy—a term that refers especially to Old Age Assistance, Aid to the Blind, Aid to the Totally and Permanently Disabled, and Aid to Families with Dependent Children.

VALUES CONFLICT

An income maintenance proposal must be compatible with the values we hold concerning work, equality of access to opportunity, and social responsibility. These values serve a critical role in examination of income maintenance alternatives.

The most widely known dictum concerning our values toward work is: "He who does not work should not eat." The earning of money is an obligation that the individual is supposed to feel.

A basic assumption undergirds these statements, namely, that people have access to the opportunity to work. The Commission on Income Maintenance Programs has concluded that this assumption no longer holds. Few who observe the need for jobs and lack of access to jobs in rural or urban America would dispute this conclusion.

The concept of equality of access to opportunity extends beyond that expressed as the right to equal opportunity. In essence, equality of access to opportunity recognizes that individuals born with equal ability do not have equal access to means for developing that ability or marketing their ability after it is developed.

Any consideration of equality of access to opportunity results in many questions. Did the access to opportunity obtained by that person result from a land oriented price-income policy established a generation ago? Did access to an opportunity to work terminate for that person as a result of an activity conducted by some mechanical or chemical engineer ten years ago? Was access to proper nutrition, education, or health denied for that person by accident of place of birth? Was equality of access to opportunity denied because he or she was a member of a large family or a poor family or both?

Social responsibility extends beyond income redistribution and job provision and beyond the concept that we are our brother's keeper to the concept of man's humanity to man. This becomes quite clear if we consider the argument that the poor want (1) personal respect as people, (2) social justice, (3) a political voice, and (4) economic opportunity.

Though brief, this sketch illustrates the values that mold income maintenance alternatives. The value we hold about work dominates the molding process. But the process itself is bound together by the ethic of self-integrity. It has been said that this ethic relates to the status deserts of dissenters. Its central judgment is that in case of conflict, both the individual and his group (or groups) are responsible for seeking a new mode of thought and practice that will unify the hitherto conflicting views of each. Surely this is a necessary viewpoint in the task at hand.

INCOME MAINTENANCE

All income maintenance programs seek to achieve income averaging, and they divide into two major classes. Programs designed to average one family's income for a number of years over the life-span of that family are assigned to the individual equity class. Programs averaging one year's income of a society among families by means of cash or in-kind transfers, which provide income supplements to some families by taxing others, are placed in the social equity class. This paper considers only social equity or income supplement programs. The basic policy questions surrounding income supplements are: To whom? From whom? In what form? At what cost?

Cash Transfers

Cash transfer programs consist of money transfers not subject to use restraints. Transfers in this form enable rational, informed individuals seeking to maximize satisfaction per dollar of income to reach the highest level of individual satisfaction. Despite this economic argument, relatively few programs designed to assist the poor or eliminate poverty provide for cash transfers; they provide for service or in-kind transfers.

Cash transfer programs apply on either a universal or a categorical basis. Universal programs apply to all persons meeting a single criterion such as being over age 65 or being among that set of persons defined as poor. A program becomes categorical when more than one criterion delimits the set of persons eligible to receive benefits. For example, some poor people may be denied benefits because they are not members of a family with at least one child.

Proposals are being made to reform an existing cash transfer program, AFDC (the Aid to Families with Dependent Children Program), by using relatively few criteria to delimit who is eligible for benefits. Normally an AFDC applicant is a female head of household. To prove eligibility:

1. She must demonstrate that the child is deprived of the care and support of one parent by death, desertion, incapacity, or (in 21 states) unemployment.
2. If the cause is desertion, she must agree to report the child's father to the district attorney, and usually, swear out a warrant for nonsupport.
3. In most states she must prove that she has been a resident for one year.
4. She must show that she has no real property, or that it is valued within the prescribed limits.
5. She must show that her income is insufficient for self-support—that there is a budget deficiency.
6. She must meet whatever special requirements the state may impose.
7. She must give a "social study" describing her background and history and make a plan for herself and her child to lead toward self-support.
8. She must submit to house visits by social workers.
9. She must be prepared to have all statements referring to eligibility verified.

Before the Supreme Court voided the "man-in-the-house" rule, males "earned" AFDC eligibility for their family by deserting or not marrying the mother of their children. AFDC shows that increases in the number and the severity of criteria that delimit the set of persons eligible for a program do not necessarily decrease the number of eligible persons. People learn and adjust; social attitudes change; and economic conditions change. Over a twenty-year period ending in

December 1969, these phenomena combined to produce a 340 percent rise in the total of AFDC recipients. AFDC families increased from 651,000 to 1,875,000. Total AFDC recipients (children) increased from 1,661,000 to 5,413,000.

Whatever commended AFDC cash transfers initially, changes over time caused several problems with the program. Work was discouraged among AFDC recipients by disincentives that reduced the transfer payment one dollar for each dollar earned. Families in identical or nearly identical circumstances in different geographic areas received different treatment. Arbitrary authority allowed local officials has often been used to force recipients either to conform to certain patterns of behavior or lose benefits. Vexed communities have rankled at violations of their tenets. Moreover, the ethnic composition of AFDC recipient families irritated nonrecipient families in many communities. These issues focused additional attention on the need to bring about welfare reform.

The clamor for social equity reached such levels that policy makers turned their attention to welfare reform. From their effort came not only proposals related to welfare reform, but also proposals for poverty elimination and income maintenance. Friedman's idea of welfare reform based on the federal income tax system did not prove viable, but his idea for removing some disincentives to work by reducing payments by 50 percent of increases in earned income rather than 100 percent for each dollar earned proved viable. Lampman and others offered proposals that extended the analysis of the problem, but did not effectively solve a central dilemma: how to move the recipient from cash transfer programs to self-support in a manner that produces the minimum disincentive to work. Tobin made an important contribution to the solution by his proposal to use a minimum payment. Above this, the transfer payment would be reduced by 50 percent of any increase in earnings. This meant a recipient would have both an incentive to work and increased income. Then, as capability of self-support improved, program costs would decrease.

In-Kind Transfers

Family assistance is a cash transfer program, but food stamps (an in-kind transfer) are combined with the program in a way to make them accessible to any eligible family. In addition, some prospective recipients are now eligible for such in-kind transfers as public housing and Medicaid. As their income rises, recipients of in-kind transfers normally pay an increasing portion of the value of the commodity or services involved. Because payment rates do not vary uniformly with income increases, "notch" problems occur, causing cumulative marginal tax rates to vary widely, often approaching 100 percent, and in some instances to exceed several hundred percent. In these cases, the disincentive to earn income at certain levels is obvious. The revised Family Assistance Act of 1970 gives attention to ways to reduce these disincentives. (See appendix tables, pp. 84-85.)

A basic assumption underlying in-kind transfers is that policy makers can develop that combination of resources which maximizes satisfaction of the recipient. Yet, what may maximize satisfaction for the individual may conflict with the objective sought by the community. Public housing produces new buildings for community members to look at; but the housing does not necessarily maximize satisfaction for those individuals who live in it. Combining food stamps with family assistance provides a similar case. At present, a community objective is to reduce, perhaps eliminate, hunger and malnutrition. It has been argued that food programs complete with an educational effort would be more efficient than income supplements alone in closing the food and nutrition gap.

Food stamps lacked a critical condition when family assistance was proposed; equality of access to obtain food stamps did not exist. The revised version of the Family Assistance Act of 1970 makes access universal and equal. It would permit a recipient family to indicate by a simple check mark that it desires food stamps, and the charge will be automatically deducted from the transfer payment and the stamps mailed to the recipient with the payments. This arrangement should effectively close the hunger and nutrition gap for families with children.

Cost controls apply to in-kind transfer programs just as to cash transfer programs. AFDC costs (and those for similar programs) have been paid directly from the federal treasury. Because federal monies supplement payment levels set by state and local governments, especially cities, AFDC rolls could expand and federal payment levels could rise without limit so long as at least 50 percent of costs came from another level of government. This practice would end if the family assistance program were adopted.

THE FAMILY ASSISTANCE PLAN

Under the Family Assistance Plan only families with children would be eligible for payments. A four-person family with no other income would be eligible for a $1,600 minimum payment, based on $500 for the first two family members and $300 for each additional member. This eliminates income discrimination by sex, since one family member may be an employed male head of household, and adjusts to a limited extent for economies of scale in family size. Family resources cannot exceed $1,500, except for a home, household goods, and property essential to self-support, a provision that extends eligibility to many working poor, including farmers. Because the minimum payment is uniform nationwide and the cost of living varies, family assistance favors residents of rural areas compared to urban areas and residents of southern states compared to nonsouthern states.

Economic incentives to work appear in family assistance in several forms. First, the basic transfer payment would be reduced by only 50 percent of any increase in earned income up to $3,200. In addition, all income will be determined net of federal income tax. Another incentive excludes earnings up to $60 per month as a cost of working allowance. These incentives combine to produce a net money break-even income of $3,920. Income payments will be determined each quarter. When payments lag with respect to changes in income, farmers should benefit because their incomes tend to vary.

A legal incentive to work is contained in the proposal. The first two members of a family unit must register for work or training except where one has not reached sixteen years of age, or is the mother of a child not six years of age, or is incapacitated by illness or age. The question of suitable work continues as an issue, but as revised by the administration the recipient's right of refusal of employment on grounds of prior experience and skills would apply only to cases where similar employment is actually available in the community and the individual has not been given adequate opportunity to obtain it.

How a cash transfer program may affect the work incentive remains a major concern. Based upon initial research data, the University of Wisconsin Institute for Research on Poverty states that the crucial issue relating to the effect on earnings is unresolved in the sense that no significant changes have been found. But to the extent that differences appear between control and experimental families they are generally in favor of *greater* work effort for experimentals. Hence, anyone who seeks to support an argument of drastic disincentive effects cannot expect to find even weak support in the data so far. It further states that no evidence has been found in the urban experiment to support the belief that negative-tax-type income maintenance programs will produce large disincentives and subsequent reduction in earnings. Unfortunately, this experiment does not study response to changes in cumulative marginal tax rates when cash transfers and in-kind transfers combine.

Family assistance also contains a mechanism to control cost at the federal level. Federal funds would be available to supplement 30 percent of any state payment level between the federal minimum and the poverty threshold. This is a simple mechanism. Only Congress can change the minimum payment levels. States maintaining cash transfer programs that exceed the poverty level cannot obtain federal funds to supplement that amount in excess of the poverty level. Poverty levels under the revised proposal would be:

Family Size	Basic Amount
One	$1,920
Two	2,520
Three	3,120
Four	3,720
Five	4,270
Six	4,820
Seven	5,320
Eight	5,820
Nine	6,270
Ten	6,720
Eleven or more	7,170

Incremental increases in income supplements will not be available to families beyond eleven members, even though earnings of such families do not bring them to the poverty threshold. Poverty levels must be revised annually by the Department of Health, Education, and Welfare.

By using this form of cost control and by paying the total costs of the minimum program from the federal level income maintenance proponents seek to achieve two objectives: (1) raising minimum payments until at least all children have available poverty threshold incomes and (2) shifting income maintenance costs completely to the federal level. In addition, the program offers states an option strengthened by an economic incentive to have family assistance administered at the federal level.

An estimated 13 million people living in 3.7 million family units are eligible for family assistance, according to recent estimates based on adjusted data from the Current Population Survey for 1969. About 43 percent of these families live in the South. One-half of all eligible households would be headed by a male. Among all heads of household 61 percent would be white and 39 percent nonwhite (Table 1). By comparison about 50 percent of current AFDC recipients are nonwhite, and about 70 percent of the working poor are white.

When day care and training costs are included, plus the increased cost of food stamps due to the check off feature, net costs of family assistance are placed at $4.1 billion. Total federal income maintenance

TABLE 1. ESTIMATED NUMBER OF FAMILIES ELIGIBLE FOR FAMILY ASSISTANCE BENEFITS IN 1971, BY SELECTED CHARACTERISTICS

Characteristic	Number of Families (in Thousands)	Percent of Total
Grand total	3,678	100.0
Sex of family head		
Male	1,846	50.2
Female	1,831	49.8
Race of family head		
White	2,258	61.4
Nonwhite	1,420	38.6
Age of family head		
65 and over	132	3.6
Under 65	3,546	96.4
Region of residence		
Northeast	776	21.1
North central	747	20.3
South	1,570	42.7
West	585	15.9
Work experience of family head		
Work full time all year	1,167	31.7
Some work experience during year	1,297	35.3
No work during year	1,182	32.1
Military	32	0.9
Number of earners in family		
No earners	883	24.0
One earner	1,589	43.2
Two earners	768	20.9
Three or more earners	437	11.9

NOTE: Based on the March 1969 current population survey which collected information on family status at the time of the interview and on income for the preceding year (1968). The survey data have been adjusted to account for changes in income and population expected to occur from the survey year to 1971.

SOURCE: U.S. Congress, Senate Committee on Finance, H.R. 16311, The Family Assistance Act of 1970, 91st Congress, 2d Session, June 1970, Committee Print, p. 25.

payments are an estimated $7.8 billion. These estimates are for 1971 and are based on the foregoing eligibility estimates. The total cost divides into $5.0 billion for low-income households, including family assistance, and $2.8 billion for the adult category, which would be a single program combining Old Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled.

Family assistance directs money specifically to families with children, according to family size and family income. This is a move toward a minimum income support floor for society. Because it is a categorical program limited to children with families, family assistance offers an effective replacement for a series of program alternatives called children's allowances, which are used in many other countries where different economic conditions exist. Children's allowances are a costly and inefficient means of correcting income distribution problems.

Critics fault family assistance for excluding unrelated individuals and married couples without children and for not being a universal program. It may also be criticized for the low level of proposed expenditures on day care and training programs. Both programs will be extremely difficult to deliver for rural areas. The consequence could seriously strain the meaningful application of the work registry provision and possibly destroy it, in time, without considerable adjustment.

For each 1 percent rise from a 3.8 percent rate of unemployment, an estimated 100,000 families would become eligible for family assistance at a cost of $100 million. The effect will prove moderately countercyclical, while affording families some protection against economic forces beyond their control. Whatever effect changes in employment rates may have on family assistance, the developing core issue is access to job opportunity, and if family assistance becomes effective, this issue will gather momentum.

GUARANTEED EMPLOYMENT

Solving the developing issue of jobs will prove slow and painful, and much discussion and analysis will be required before effective solutions develop.

Removing emotion from discussion of guaranteed employment may prove difficult, because this income maintenance alternative creates a "make work" image. This changes, however, when it is recognized that guaranteed employment produces (1) useful goods and services, (2) skills which may be transferred to the private sector, and (3) psychological benefits to both the worker and the society.

Minimum income payment schemes have been criticized for lack of attention to job creation, a failure which can be fatal to the avowed objective of fighting poverty. Though family assistance does not purport to eliminate poverty, the design to do so by raising payments is present.

To correct for the lack of job opportunities, it has been suggested that seventy existing uncoordinated federal job programs be combined under a single agency. Employers would be required to register jobs available, but not to hire those persons seeking job opportunities through the agency. The agency would use on-the-job training with industry and government as well as conduct its own program to develop skills among the unskilled.

One goal of this proposal is to lower unemployment rates to 2 percent. An estimated $50 billion would be added annually to gross national product by fully employing the labor force, for an estimated net cost to taxpayers of some $5 billion. A refundable tax program is included with this scheme, which needs a means of controlling inflation.

Guaranteed employment programs normally provide for wage subsidies, the amount paid in excess of the worker's economic productivity. The wage subsidy can be used to achieve other objectives. For example, this form of subsidy may delay substitution of capital for labor and keep some persons who cannot be easily retrained working at jobs. Changes in the minimum wage affect the employment of such persons, and wage subsidies could usefully apply. Wage subsidies tend to favor employers for a number of reasons. Thus, these are not simple problems and may well be examined in greater depth at another time.

SERVICE PROGRAMS

A cash transfer program such as family assistance will have highly visible costs. As a result, policy efforts will seek to lower these costs to a minimum, a sound policy objective in any situation. Basic health, education, and employment programs will have high priority.

Delivery of many current programs is highly ineffective. Few rural people are aware that a single family could effectively benefit from locally based service programs funded from more than half of 210 formula grant programs and nearly all of the 50 formula grant programs supported by the Department of Health, Education, and Welfare. The Commission on Income Maintenance Programs has said the reason for this lack of awareness is that the major burdens of the task of integrating these programs at the local level have fallen upon local officials with little familiarity with the federal administrative structures and policies.

Many people agree that the federal government will have a self-imposed incentive to improve program and service delivery as a means of lowering family assistance program costs. The bill passed by the House of Representatives did not overlook this point, and it authorizes federal assistance for states which establish a comprehensive program to coordinate delivery of service programs. An educational agency associated with the land-grant system may find that it can contribute effectively to lowering costs of an income maintenance program using cash transfers.

APPENDIX TABLE A. CURRENT LAW: BENEFIT POTENTIALLY AVAILABLE TO FOUR-PERSON FEMALE-HEADED RECIPIENT FAMILIES IN CHICAGO, ILLINOIS[1]

(a)[2] Earnings	(b) AFDC	(c) Total Money Income	(d) Taxes: Federal, State, and Social Security	(e) Net Money Income	(f) Food Bonus	(g) Average Medicaid Benefit	(h) Total of Money and In-Kind	(i) Public Housing Bonus	(j) Total Net Money and In-Kind
$ 0	$2,976	$2,976	$ ...	$2,976	$480	$395	$3,851	$840	$4,691
720	2,976	3,696	35	3,661	360	395	4,416	840	5,256
1,000	2,976	3,976	48	3,928	312	395	4,635	840	5,475
2,000	2,590	4,590	96	4,494	288	395	5,177	840	6,017
3,000	1,923	4,923	144	4,779	288	395	5,462	840	6,302
4,000	1,256	5,256	332	4,924	288	395	5,607	840	6,446
5,000	589	5,589	567	5,022	288	395	5,705	840	6,545
6,000	...	6,000	837	5,163	...	...	5,163	960[3]	6,123
7,000	...	7,000	1,047	5,926	...	...	5,926	720[4]	6,646
8,000	...	8,000	1,319	6,682	...	...	6,682	720[4]	7,402
9,000	...	9,000	1,527	7,473	...	...	7,473	...	7,473

[1]Only 18 percent of all AFDC recipients in Chicago live in public housing.

[2]Column letter headings are used to identify related notes, as applicable:

(b) State supplement based on maximum payment of $2,976 (adjusted for rent paid to public housing). Work related expenses based on estimated state averages of $708.

(c) Federal tax based on current schedule, including surcharge. State tax based on current schedule. Social Security tax based on 4.8 percent of earnings up to $7,000.

(f) Food stamp bonus based on local eligibility schedules.

(g) Medicaid benefit shown is the federal portion of the average benefit for all AFDC families in state. Payments vary by family depending on needs. State eligibility standards apply.

(i) Public housing bonus was calculated on the basis of the value of private market rentals less $90, the maximum rent allotment for AFDC recipients.

[3]Bonus increases above AFDC break-even level as families move from welfare to nonwelfare rent schedules.

[4]Above continued occupancy limit, but families would be allowed to stay, at higher rent, until other housing is located.

SOURCE: U.S. Congress, Senate Committee on Finance, H.R. 16311, The Family Assistance Act of 1970, 91st Congress, 2d Session, June 1970, Committee Print, p. 57.

APPENDIX TABLE B. PROPOSED FAMILY ASSISTANCE REVISED: BENEFITS POTENTIALLY AVAILABLE TO FOUR-PERSON FEMALE-HEADED RECIPIENT FAMILIES IN CHICAGO, ILLINOIS[1]

(a)[2] Earnings	(b) Family Assistance Payment	(c) State Supplement	(d) Gross Money Income	(e) Taxes: Federal, State, and Social Security	(f) Food Stamp Bonus	(g) Medical Insurance Bonus	(h) Total Net Money and Bonus	(i) Housing Bonus Proposed	(j) Total Net Money and In-Kind
$ 0	$1,600	$1,556	$3,156	$ ...	$345	$414	$3,915	$1,349	$5,264
720	1,600	1,556	3,876	37	116	342	4,297	1,201	5,498
1,000	1,460	1,509	3,969	52	86	333	4,336	1,178	5,514
2,000	960	1,342	4,302	104	...	300	4,498	1,095	5,593
3,000	460	1,175	4,635	156	...	246	4,725	1,011	5,736
4,000	...	987	4,987	236	...	158	4,909	923	5,832
5,000	...	416	5,416	443	...	51	5,024	816	5,840
6,000	...	...	6,000	669	...	...	5,331	670	6,001
7,000	...	...	7,000	912	...	...	6,088	420	6,508
8,000	...	...	8,000	1,134	...	...	6,866	170	7,036
9,000	...	...	9,000	1,369	...	...	7,631	...	7,631

[1]Public housing will be available to only 6 percent of family assistance families nationwide.

[2]Column letter headings are used to identify related notes, as applicable:

(a) Family assistance benefits are $1,600 for a family of four with no other income, based on $500 each for the first two persons, $300 each for succeeding persons. Family assistance benefits are reduced 50 percent for earnings, after the initial disregard of $720 for work-related expenses and a single deduction for federal income taxes.

(b) State supplementary payments are based on current payment levels with a 67 percent reduction rate for earnings, after the initial disregard of $720 and a single deduction for federal income taxes.

(e) Federal income tax computed on the schedule effective in 1972, assuming no surcharge. State tax is computed on current state schedule. Social Security taxes reflect the increase from 4.8 to 5.2 percent of earnings up to $9,000, which will be effective January 1971.

(f) Food assistance is based on present estimates that the food stamp program will replace the surplus commodity program in most areas within the first year of operation of family assistance. Food stamp bonus is the difference between the coupon allotment ($1,272) and the purchase price (31.8 percent of gross income less $240).

(g) The assumption here is that the family health insurance program would replace the present Medicaid program for families with a health insurance policy having a $500 premium value. This policy value includes no supplementation which the states might wish to make. Medical insurance bonus is the difference between contributions and the illustrative premium value of $500. The following illustrative contribution schedule is assumed: 0 percent of gross income to $1,600, 5 percent of that amount of gross income between $1,600 and $3,000, 10 percent from $3,000 to $4,500, and 25 percent from $4,500 to $5,620. Full participation is assumed.

(i) The housing bonus is calculated on the basis of the proposed 1970 Housing Act (S. 3639). That act sets a uniform system of rents for all subsidized rental housing, public and private, based upon fixed percentage of family income after $300 is deducted from gross income for each child in excess of two. On the first $3,500, families must pay 20 percent of net income for rent; on the amount over $3,500, 25 percent. The bonus is the difference between prevailing private rents for housing of modest standards, . . . based on the most recent determination. It was assumed that the required unit sizes were two-bedroom units for four person families.

SOURCE: U.S. Congress, Senate Committee on Finance, H.R. 16311, The Family Assistance Act of 1970, 91st Congress, 2d Session, June 1970, Committee Print, p. 57.