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# CRITERIA FOR INCOME MAINTENANCE PROGRAMS

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This discussion will be focused on one segment of our income maintenance programs, specifically those we call welfare programs. First, I will review some of the social and economic origins of those programs and describe their inadequacies. I will then specify some rules which may be useful in eliminating "the welfare mess," and briefly evaluate the President's proposed Family Assistance Program in terms of those rules. Finally, I will discuss changes that passage of this legislation may cause in other income maintenance legislation as well as the likely political effects of such changes.

Our story of welfare in the United States begins in the late eighteen hundreds with the passage of relief legislation by a number of states. Such legislation was typically concerned with emergency relief in periods of economic depression. Gradually, however, these programs became permanent. Their main concern was to assure that widows with children, and other persons who could be certified as "deserving," were provided aid in periods of economic distress.

The major welfare program of our time, Aid to Families with Dependent Children (AFDC), was itself a product of one of those periods of economic distress. Passed during the early period of the New Deal, it provided regular income assistance to mothers with children. When 15 million workers were unemployed, it was clear that mothers with small children would not be able to find work. They required assistance, and AFDC was the answer.

However, we were never very happy with the idea of relief, even during the worst of the depression. For most of us poverty carried an implication of laziness. It still does, and all our welfare legislation has embodied within it the desire to help those who cannot help themselves, and the fear that we will be "taken" in the attempt. The song, "Welfare Cadillac," is a popular reflection of the fear that the lazy and shiftless are taking advantage of that program.

It should not surprise us that the programs which grew out of these conflicting attitudes contain conflicts within their own program structure and also are in conflict with other income maintenance programs.

It is useful to describe the effects of such conflict. For instance:

1. Persons may be eligible for AFDC in one state, or a county within the state, and not be considered eligible in an adjoining state or even an adjoining county.
2. Even among program eligibles, benefit levels vary as much as 50 percent within states, and 500 percent between states.
3. The system subjects its beneficiaries to a level of continuing and personal observation and investigation which most of us would consider socially repugnant and personally intolerable.
4. The program serves only about one-third of all those who are poor. The lowest paying states have the largest number of poor persons and are themselves low per capita income areas. Thus, taxes now being collected and distributed through public assistance in these states represent much higher levels of sacrifice than do high payments in more affluent states.
5. The investigative system which we use to guard against overpayment and payment to ineligible, as defined locally, is so inefficient that nearly one-fifth of total program expenditures are required to pay for administration and investigation.

These are not, however, the most disastrous effects of the system.

Those who receive benefits are generally subject to tax rates on earnings which are usually equivalent to 100 percent. Thus, the system provides no monetary incentive for anyone receiving benefits to work. It is difficult to imagine a more thoroughgoing mechanism to discourage work. Indeed, what is surprising is that many welfare recipients do work in spite of the perverse incentive structure of the existing system.

The system provides no rewards for the group which would generally be considered the most deserving of all—male family heads who work 40 hours a week, 50 weeks a year, but in spite of their work efforts remain poor. Practically this entire working poor population is specifically excluded from any protection by our welfare system.

This criticism of the existing welfare system could continue for several pages, but we have probably gone far enough to agree with both Presidents Johnson and Nixon that the present welfare system is a social, economic, and political failure.

#### **BASIC RULES FOR AN INCOME MAINTENANCE SYSTEM**

This enumeration of the faults of the existing system can help us

to specify some general propositions of what an income maintenance system should do. I have tried to profit from the program failures of the existing system in specifying five basic rules for designing an income maintenance system. They are:

1. Income inadequacy is a national problem, and given the will to seek solutions to that problem, the answers must be national in scope rather than state or local.
2. Whatever system is chosen as the "solution," it should provide clear and consistent incentives for work and self-improvement.
3. The chosen design should guarantee administrative efficiency.
4. Acceptance of benefits should not be conditioned on the acceptance of a degraded status within the community.
5. The system should conform to the rule of law. Eligibility, benefit levels, rights, and obligations must all be specific and objective—not dependent upon the attitude or authority of bureaucrats. This is really very simple and very important. Society can perhaps best be judged by whether it provides socially defined equity in an impersonal and uniform manner. When we begin to deviate from such norms, the citizen loses faith in his government. When deviation is widespread, every man becomes a "hustler" and every other man his game.

This is all that an income maintenance system should try to do. It cannot prevent what may be regarded as immoral behavior and it should not try to. We cannot use an income maintenance program to inflict punishment for illegitimacy. That problem—if it is a problem—must be solved by other methods. Penalizing the child for the "sins" of the mother will not reduce the number of illegitimate children or feed those who already exist.

Neither can an income maintenance system substitute for adequate job opportunities. Providing incentives to work will be useless unless work is available.

We must not put a penalty on internal migration by declaring persons ineligible for welfare who have not lived within local jurisdictions a specified period. A person who moves to New York from Mississippi does so because he believes that work opportunities, or schools, or welfare is "better" there. That is a right guaranteed by the Constitution, and it is a right which forms the bedrock of the theory of free enterprise. A law or an institution which is acceptable only so long as no one seeks its protection is a poor law.

We have listed five rules as the basis of program design for in-

come maintenance legislation. These rules have specific implications with regard to decisions determining the source of program funding and its administration.

If, for instance, we agree that income inadequacy is a national problem, then the burden of that problem should be national in scope. This conclusion argues strongly that program funding should be national rather than state or local. The burdens and benefits of such a program are bound to be unequal, but the only way of insuring that they are not disproportionately unequal is to fund such programs on the federal level—preferably from general revenue sources.

The same rationale applies (although with less force) to the question of benefit levels. Income support for a given level of income inadequacy should be the same in Alabama, or Colorado, or New York.

Differences in the “cost of living,” which argue for payment differentials, are not so wide as is normally assumed. Furthermore, no agency professes competence to suggest what those differences might in actuality be. Finally, the payment of a high benefit in high cost areas provides strong incentives for people to move there. The result if such movement is to further clog our metropolitan areas with those least equipped to deal with urban life.

The application of the rule that our program should be national, combined with acceptance of the rule of impersonal and uniform application—the rule of law—calls for uniform rules and regulations of program eligibility throughout the states.

Insistence on this point probably requires that the program be administered at the state or federal level. (I take it as given that such a program should be administered under a strong civil service program, so that political pressure cannot pervert the system to reward the politically deserving.) Given the acceptance of these programs specifics, I am not all that concerned whether the administrative officials are state or federal employees. My personal preference would probably be for federal administration. Individual experience with federal officialdom may not have been altogether a happy one, but state bureaucracies seem even less responsive to the average citizen.

So much for the theory of what would be done if we, who are logical, rational men and women were in power instead of the politicians. The facts of the matter are of course that the politicians are not so irrational as they might appear to be, nor even so irrational as it is comforting to believe when they turn down or, worse, will not even hear out one of our pet proposals. The politician must make reasonably certain not just that he will get re-elected, but if he is a

responsible man, that proposals which he supports will make things somewhat better and not worse. That rule alone would consign at least half of all academically conceived plans to the trash bin.

Given that modest requirement—not to reach perfection, but merely to achieve sufficient reform to redirect the program with reasonable assurance that the system will be better, that it will begin to move toward our five enumerated goals—where do we go from here?

### THE FAMILY ASSISTANCE PROGRAM

The proposed Family Assistance Program, which has been passed by the House of Representatives and is now being considered by the Senate Finance Committee, is, I think, where we should go.

This does not mean that it is without fault. It does not sufficiently reward work effort. It does retain a mix of local, state, and federal programs. It does mix other goals—child care and work compulsion—with the income assistance goal. It does have these and other faults. Even so, it is clearly a revolutionary program. It is perhaps the most revolutionary program since the establishment of the federal income tax amendment. It promises to be at least as far reaching in effect as the Social Security Act.

The bill of course could be, and may be, improved before it becomes law. In particular, it might be desirable to specify a phasing out of the food stamp portion of the proposal in three to five years. The work test might be made more specific and thus less subject to the peculiarities of local officialdom and local prejudice. Raising the basic benefit for a family of four from \$1,600 to \$2,000 a year would relieve much of the pressure on local and state authorities to maintain an inefficient and regressive supplementary system.

There are other provisions in the bill which also should be changed, but are less likely to receive much attention. The child care provisions represent essentially romantic rather than technical answers to the problem of the working mother. The exemption of the first \$60 per month of earnings provides special work incentives most likely to be felt among families with a secondary family worker, not among families with a single worker who is already on a job.

How does the bill stack up against our five rules?

1. A national rather than state or local system. The bill compromises this rule. It abolishes the traditional “matching formulas” under AFDC and puts in its place a national system with uniform payments with uniform rules. It excludes, however, families without children and continues partial support of state and local supplementary welfare systems.

2. Clear and consistent incentives for work and self-improvement. The bill again compromises the rule. Although consistent incentives are provided in the bill, persons now receiving state assistance and receiving food stamps as well retain very little in the way of "clear" incentives, since an increase in income will reduce their welfare by 82 percent of the increase.
3. Administrative efficiency. The Family Assistance Program comes close to our rule in this area. Eligibility will be determined on the basis of client application which will be validated by spot checking similar to that of the Internal Revenue Service. An element of compromise is, however, introduced by continuing program operations of the Department of Health, Education, and Welfare rather than transferring them to the Internal Revenue Service, which would be more efficient.
4. Benefits established without degradation. The law as written specifies benefits under the Family Assistance Program as a matter of right, not at the pleasure of bureaucratic determination of "deserving."
5. Uniformity—the rule of the law. The bill is rigid in its requirement that benefits and obligations be the same throughout the country.

The bill is, therefore, not all we might hope for, but in terms of the general quality of such legislation, it is much better than we might expect. It represents a strong and important movement toward the rationalization of national income maintenance legislation. That re-direction, in my view, outweighs the bill's defects.

The argument has up to this point been concerned almost exclusively with the AFDC program and its proposed replacement, the Family Assistance Program. We have not discussed the retirement program under the Social Security Act, nor have we analyzed income maintenance in terms of Unemployment Insurance, or Veterans Disability Pension programs. These programs are most certainly part of the income maintenance program structure in the United States and affect and will be affected by the Family Assistance Program. However, no pressing public policy decision is pending with regard to these programs. This does not mean that they will continue as discrete and independent programs. In fact, I am certain that the "solution" of the problem of income inadequacy by the Family Assistance Program will force a re-examination and restructuring of these complementary income maintenance programs.

I would even be willing to suggest that the Family Assistance

Program will be broadened in coverage and that benefit levels will be increased to the point that minimum wage legislation may become a dead letter.

Finally, I would point out that many serious analysts and policy makers are very unhappy with the general agricultural support programs, particularly the cotton and wheat programs. These policy makers are beginning to ask why the income assistance elements of such programs cannot be served by a general income maintenance program like the Family Assistance Program. This suggests the cotton and wheat programs may not be "long for the world."

Earlier in this article I have called the Family Assistance Program a revolutionary program. That description does not, however, appear to be justified by the bill itself. It does substantially broaden the population eligible for work related income assistance and will as a consequence of that action, increase the number of beneficiaries from 4.5 million to about 20 million, and that is a very considerable accomplishment. It does provide a more adequate work incentive structure than existing law, and that is also important. The revolutionary nature of the program, however, is determined by the forces which its enactment will undoubtedly set into motion.

The Senate Finance Committee pointed out that the bill as written did not provide clear work incentives for persons who received food stamp benefits, were public housing beneficiaries, or were protected by Medicaid.

The administration responded to this criticism by eliminating the existing schedule of benefits under the food stamp and public housing programs and replacing them with schedules which meshed with the Family Assistance Program itself, and in addition specified that the food stamp program be transferred from the Department of Agriculture to the Department of Health, Education, and Welfare. This latter step will permit the food stamp program to be administered in concert with the Family Assistance Program. Applicants will be able to indicate the desired level of food stamps at the same time they file for Family Assistance Program benefits.

More important than either of these steps was the administration proposal to replace the Medicaid program with a comprehensive medical care program for Family Assistance Program beneficiaries plus many millions of other families not eligible for the Family Assistance Program. The administration has promised to submit the detailed legislation package for this program by February 15, 1971. The preliminary statement regarding the medical care program has not



neglected the problem of incentives. Coverage will be provided for some 30 million Americans.

I have already suggested that enactment of the Family Assistance Program may lead to a total restructuring of the Social Security retirement program and various agricultural support programs, but even these changes might not justify use of the word "revolutionary" to describe the effects of the proposed program. I am confident that income protection under the Family Assistance Program will be enlarged, probably within two or three years, to provide income protection for all persons under 65, whether or not they live in families with children. The history of the Social Security Act provides an analogous example of program expansion. I would not be at all surprised if the basic benefit also rises rapidly. It is not too much to hope that basic benefit levels may equal the poverty line before the end of the decade.

The economic effects of a program like the Family Assistance Program are reasonably certain. Most of the money will go to the South—because that is where most of the poor live. This will, of course, enormously strengthen consumer markets. The sales of shoes and food and paint and, yes, television sets will increase. This is why I think the National Association of Manufacturers supports the program. It will also increase the cost of domestic labor. This, I think, is the heart of the reason why the chambers of commerce in the South have opposed the program. I suspect that the majority of the people will vote for higher consumption and higher sales even in the face of higher wages.

Rising wages and spendable income, which will rise even in the absence of higher wages, will undoubtedly affect the course of political life as well. A population dependent on others for the necessities of life is politically dependent. The Family Assistance Program will seriously erode the foundations of such dependence. Political changes of startling dimensions may follow.

This paper has perhaps given insufficient attention to the force of the "Protestant Ethic" in determining the character and substance of our income maintenance legislation. There is, after all, a strong belief (and this belief is strongly reinforced by general prosperity) that anyone can "make it" in America if he works hard. This belief is at the heart of our fears that malingering and laziness are the root problem of many welfare recipients.

I do not doubt the emotional force of the argument. There are undoubtedly thousands who cheat the welfare authorities. There may even be a few "welfare Cadillacs," even as there are bank presidents

who cheat depositors by juggling books, and millionaires who cheat us all by not paying their income tax.

It is, I think, more important to provide a rational and adequate system for families headed by a male working a full year, full time, who are poor in spite of it all. A society that worries about the 2 or 3 percent of welfare recipients who get benefits though technically ineligible, while disregarding the needs of the working poor, has misplaced its concern. A defense of such inequitable treatment on the grounds that general income assistance will ruin the nation's "moral fiber" seriously misunderstands the nature of morality and the work ethic.