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UNITED STATES DEPARTMENT OF AGRICULTURE  
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INCOME MAINTENANCE PROGRAMS

Talk by Robert Harris  
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President's Commission on Income Maintenance Programs  
at the 46th National Agricultural Outlook Conference  
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The major income maintenance programs that we have today were established over 30 years ago.

These programs -- Social Security System, Public Assistance, and Unemployment Insurance -- have been modified considerably over the years, but they still comprise the major components of our present Income Maintenance System. Many other programs -- including Veterans Benefits, Rent Supplements, Public Housing, Food Stamps -- affect individuals' income levels but the major programs that we have today are those established by the Social Security Act of 1935.

These programs have a major impact on the level of well-being of many Americans. Approximately 24 million persons receive Social Security checks monthly. Another nine million receive public assistance monthly. With these as the basic programs, and the additions that we have made over the years, we have many pieces of a complete system but an entire system of economic security as envisaged by the early planners has not yet developed. We do not yet have an overall system which insures an adequate income to all human beings -- in childhood, youth, middle age or old age.

The objectives of the elimination of poverty and the provision of economic security are widely accepted today.

There is also widespread recognition of the fact that existing income maintenance programs are not doing their share in that task. As of yet, however, there is not widespread acceptance of any proposed program reform or new program.

Each proposal put forward for major reform seems to have some defects that are quickly pointed out. The defects usually do not concern achieving the basic objective of getting money to those in need. The defects usually concern possible adverse side effects on the functioning of social and economic systems. In addition, such proposals are usually quite costly and cannot be implemented without widespread acceptance. That acceptance cannot be achieved unless the defects are remedied -- and the public and political leaders are convinced that those defects have been remedied.

It is on the difficult problems of designing adequate programs that I would like to focus today, since these are the problems that the President's Commission on Income Maintenance is studying. I will also focus my remarks only on the problems of designing income maintenance programs for the poor. I will not deal directly with existing insurance programs. They are aimed primarily at replacing earnings lost due to retirement, disability, short-term unemployment or death of an earner. They do that job well. They could be improved, but possible improvements in those programs would be the subject of another paper.

I will also not speak directly about employment programs and job training programs because that would be the subject of another long paper. Let me just mention that I do not view income maintenance and employment programs as substitutes, but as complements. Income maintenance programs are necessary even with good training and employment programs for a variety of reasons, including the facts that: (1) many cannot find jobs at any given point in time, (2) many unemployed "employables" need extensive and lengthy rehabilitation before they can be equipped for the labor market, (3) there is a longtime lag involved in using training and unemployment programs to eliminate current poverty, and (4) many of the poor already work. About one-third of the poor in 1966 lived in families where the head of the family worked all year.

I will be concerned then only with problems of designing programs to transfer money income to those who remain poor despite the existence of social insurance programs, employment and training programs, and social services. A good many of these would remain poor even if those programs were significantly improved, and I shall merely assume that we want such a program and consider problems of designing one.

I will begin by considering particular program issues and move to a discussion of specific program proposals. The major program issues can be posed as questions. They are frequently debated in that form. They are:

1. Should we design programs for specific categories of the population?
2. Should we use a means test?

3. Should we aid employables?
4. At what level should incomes be supported?

Discussion of these questions brings out graphically a set of program objectives that exists in addition to the basic objective of insuring adequate incomes. It is in meeting the other program objectives that many program proposals have foundered.

## ISSUES IN PROGRAM DESIGN

### Program Design

1. Should we categorize or not? All of our existing Federal programs are categorical in that demographic factors, such as age, physical condition, and employment status, in addition to need, determine eligibility.

The use of categories allows us to tailor programs to the special needs of different population groups. It also has allowed us to avoid having to deal directly with the basic problem of adversely affecting incentives to work -- since the existing categories were designed primarily to aid groups not in the labor force, or temporarily unemployed.

Arguments against categorization are that we cannot do a very good job of designing categories that assure that all needy persons who cannot work, or cannot find a job will receive aid. In addition, some categories are provided with considerably more aid per capita than others -- the aged receive more than AFDC recipients in most States -- and the differences cannot be justified on the basis of objective need. This may reflect an indirect way of dealing with the issue of work incentives -- we are not sure that adult members of AFDC families really should be out of the labor force, while for the aged, blind, and disabled we are.

Another criticism of categorization is that by the very fact of creating a category eligible for some benefit, we create an incentive for some persons to become a member of that category. The higher the benefit, the greater the incentive and the larger the numbers of persons who might find it tempting. This is not troublesome for the aged, blind, or disabled since one cannot easily put oneself in that category. A program that makes it possible for a female-headed family to be better off than an intact family becomes suspect, however. So does a program which allows an unemployed man to be better off than an employed man. While we have little data, we suspect that the existence of AFDC contributes to family breakup in poor families. The more that program is improved, moreover, the greater the incentive that is provided. Conversely, once a woman is on AFDC, there is a great disincentive to remarriage.

The fear of malingering has kept us from developing adequate programs for unemployed males in need. In addition, we have not developed a Federal program that supplements the earnings of working males. In 1966 one-third of all persons in poor families were in families where the family head worked full-time all year. These are a major problem group. However, they cannot be treated the same as those for whom we are not concerned about work.

## 2. Should we use a means test or not?

Opponents of the use of a means test argue that the test is inherently demeaning, since one must publicly declare oneself to be poor to receive benefits. Programs which have payments based on status rather than need are less demeaning and more popular. Social Security, which has no means test, has better acceptance than Public Assistance -- both by the general public and recipients. This can be illustrated by the indignities allegedly visited on the AFDC recipient in contrast to other direct Federal programs such as Social Security or Veteran's Pensions. The woman eligible for Survivor's Insurance applies to a local Social Security Administration office and begins receiving monthly checks when her eligibility is verified. The same woman, if ineligible for social insurance, must apply for AFDC, undergo a study of her history, living arrangements, assets, liabilities, other income, etc. Her morals frequently come under close scrutiny and she may be held accountable for the way in which she spends her assistance payments. Only those with no other alternatives are subjected to this kind of treatment.

The use of a means test or an income test also results in benefits being reduced for earnings -- thus touching on the issue of possibly harming work incentives. Until the 1967 Social Security Amendments, for example, the payments to welfare recipients were generally reduced dollar for dollar for earned income, regardless of the adequacy of the initial payment level.

Finally, programs with status tests rather than income tests are allegedly less socially divisive -- they do not divide society into a "poor" receiving class, and the rest. All of those in the same objective category are eligible for benefits. On the other hand, payments made on the basis of factors other than need are inefficient in channeling funds to the needy in that they cost more, may benefit the non-needy, and may not benefit all of the needy. The strongest case for a needs-tested program is in terms of cost.

## 3. Should we aid the employables?

This question is particularly relevant to employable men. As I pointed out above, we have not developed programs that supplement earnings of employed men, nor do we have well-developed programs for unemployed men. Yet, a large part of the poverty population falls in this category. Some local general assistance programs supplement earnings -- but they are few in number. Assuming that one chooses to aid the employable males, the question becomes one of how to do it without impairing financial work incentives. Arguments against aiding the employable point out that

getting them employed, or employed at higher wages is a better solution. Dignity and status is enhanced if one earns income rather than receives a "dole." As pointed out earlier in this paper, however, training programs are frequently very costly, there is a long time lag involved in training programs, and we do not now have jobs for all who wish them.

#### 4. At what level should incomes be supported?

This is the hardest question of all to deal with. We are all in favor of adequate incomes for everyone -- and even the poverty level income does not seem adequate. It is difficult to imagine realizing the American dream on \$3,300 per year for a family of four -- even in the lowest-cost rural area. Frequently, the assumption is made that living in rural areas is very much cheaper than in urban areas. Often that assumption is valid only if one assumes that a lower standard of living is appropriate in rural areas.

Two problems emerge as one thinks about setting adequate income levels at or above the poverty line in a public program. The higher the level the higher the cost -- as more people become eligible for income support. Secondly, the higher the level of income set the greater are the problems of maintaining incentives to work.

But at its heart, the question of levels is purely political, regardless of the kind of program under discussion. Technicians can develop estimates of program costs and effects for any kind of program, but a collective decision is required to make a social choice on this issue.

### SPECIFIC PROGRAM PROPOSALS

In grappling with each of the above questions, the same underlying issues seem to emerge in one form or another. These issues really amount to tailoring the system to meet other objectives than that of providing enough income to those in need. The basic objective might be restated as: How do we assure adequate incomes for all through transfer mechanisms that do not harm financial incentives to work, do not demean recipients, and do not have socially disruptive effects?

Many programs are being discussed currently, and all seek to satisfy the multiple objectives outlined. I will deal with only a few of them. All of these proposals attempt to deal with the issues and objectives raised above in one way or another. Of course, all of them seek to insure a minimum income as well.

Basically, two kinds of programs are being discussed and proposed in addition to or as alternatives to social insurance modifications: Those which would supplement incomes and thus have some sort of means test, and those which would provide payments to people regardless of their level of other income.

## Income Supplementation Programs

A proposal frequently made is for a guaranteed minimum annual income to be provided to all. In this program, the Government would pay the difference between a family's income and some socially defined level of minimum income. If it is Federally administered, it moves the burden of administering cash payments from welfare agencies, except for emergency aid. If we reform public assistance by setting a uniform standard for payment levels, making men who work eligible for supplementation, and including unrelated individuals, we have in effect adopted a guaranteed annual income administered by State and local welfare agencies. This was essentially proposed by the Advisory Council on Public Welfare in its report in 1966.

This plan as proposed is universal in coverage. If the guarantee level is set at the poverty line, it eliminates poverty in one fell swoop. A basic defect of it is that it fails to deal with the work incentive issue at all. The plan would make it unprofitable to work unless earnings could exceed the guarantee level. In economist's terms, this program has an implicit 100 percent tax rate on earnings -- for every dollar earned you lose a dollar of guaranteed annual income. In the construction of tax systems, we exhibit a great deal of concern lest our marginal tax rates be set high enough to discourage work efforts. The same concern applies to designing programs to transfer income to the poor.

One can build on this type of plan, however, and add a positive work incentive feature -- such as, reducing the GAI payment by some fraction of a dollar for each dollar of earnings. This type of plan has come to be known as a negative income tax. Characteristic of all negative income tax plans proposed is that they guarantee a certain income level, and then allow the recipient to build upon that guarantee by adding earnings which are only partly taxed away. They thus provide a financial incentive to work -- those who work always have more income than those who do not.

Most proposals for negative income taxation are universal in nature -- they cover the entire population. It is, however, possible to have a categorical negative income tax. We now have one for broken families -- the 1967 Amendments to the Social Security Act made the AFDC program into such a plan since earnings are only fractionally deducted from the AFDC payments. We could have a negative income tax plan for all families with children, and such proposals have been made.

The universal negative income tax deals with the three sub-objectives of program design. It provides positive work incentives, it is administered in an impersonal manner, and by tailoring benefits to family size and income, it need not make it profitable to become a broken family. The issue of dignity is dealt with not only by abolishing the means test but by impersonal and objective administration.

However, because of the incentive feature, payments are also made to the non-poor if the guarantee level is set at the poverty line. With a \$3,300 guarantee for a family of four and the 50 percent tax rate, payments are made to people with incomes up to \$6,600. Such a plan might cost over \$20 billion

today. If we scale down the program by cutting the guarantee level back, we do not eliminate poverty. We do, however, help many poor people significantly. With a guarantee level at half of the poverty line and a 50 percent rate, such a program might cost about \$6 billion and would aid all of the poor. It should be noted that cash assistance under AFDC is so far below the poverty level in many States that many recipients would be better off than they now are, and poor non-recipients would also be aided. A low-level negative income tax, added to our existing categorical programs, would reduce the differentials between those in categories and not in categories, thus lessening incentives for families to separate, and would aid all of those who do not fall in categories.

#### Programs Unrelated to Need

Programs can also be designed to provide income without a needs test of any sort. There are many kinds of suggested plans in this category. They are known as social dividends, demogrants, family allowances, etc.

The coverage, structure, and costs of these programs vary widely, depending on the specification. In general, these plans select some segment of the population -- say, children under 18 -- and the Government makes a flat payment per capita to all of those in the category regardless of family income. If the whole population is selected, the program is known as a social dividend.

Many countries have such plans for children. In a limited sense, we have one for the aged -- since all of the aged over 72 are eligible for a minimum Social Security benefit regardless of whether they made contributions to the system or not.

A family allowance scheme could eliminate poverty for most families with children if payments were set at a high level. A social dividend could eliminate poverty completely if set at a high enough level.

This type of program deals with the issues above in the following manner: There is no stigma or loss of dignity involved since all persons in some objectively defined category receive payments through an impersonal administrative system. There should be no work incentive effects since payments are not affected at all by earnings, although poverty level payments would give people the option of working or not working. Family structure should not be adversely affected. In fact, it might be enhanced since poor fathers would find it easier to support their children and husbandless women would be more marriageable. A new husband would not have to worry about taking on the burden of supporting her children. (In effect, we would be giving her a dowry.)



The basic problem with this program is one of cost. To eliminate poverty among families with children through a children's allowance program would cost well over \$100 billion, since payments would go to rich and poor children alike. This looks like a horrifying addition to a budget. To finance that program would require, of course, taxing the benefits away from the non-poor. Lower levels of payment are, of course, possible. Then we do not eliminate poverty, but simply alleviate it.

In addition, there is some concern that a high level program might affect birth rates. Data from other countries is inconclusive. There is no evidence of positive effects on rates, but payments are not high.

### Comparison

It should be noted that while the mechanisms for transferring funds to those in need seem quite different for negative tax and children's allowance-type programs, they are, in fact, formally identical in meeting the income needs of the poor. The main technical difference between them is that in negative tax type programs the transfer of funds is done on the basis of a net transfer. An income deficiency is met. In the case of children's allowances or demogrant type plans, two transactions are involved. Gross payments are made to all in the selected category. Those whose income is above some level, however, must pay the benefits back through the positive tax system to finance the cost. The ultimate distribution of benefits and burdens of financing can be made identical by the tax system -- the financing mechanisms. The only differences then should be in the way in which the system is perceived by recipients and the groups of persons aided. The poor would be net beneficiaries -- receiving cash income in a simple way. The affluent would simultaneously receive an increase in gross income -- and an increase in taxes under Children's Allowance plans.